EVALUATION OF THE 2020 AGM SEASON

Introduction

Every year Eumedion[1] 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 2019 and the regular shareholders' meetings held in 2020[2] are considered below.

Highlights

- Due to the Covid-19 pandemic, 2020 was the first year that a number of Dutch listed companies held 'virtual only' AGMs. The experiences with these virtual AGMs are mixed.
- The Covid-19 pandemic only had a negative impact on the number of votes cast at AGMs of companies that have a relatively large number of retail investors. There also seems to be a strong negative correlation between short selling activities in shares of a company and the number of votes cast at the AGM of that company.
- As the Covid-19 outbreak happened just before the start of the 2020 AGM season, a substantial number of companies decided to withdraw the dividend proposal from the AGM agenda ahead of the AGM.
- The new 75% voting threshold for adopting a new remuneration policy had a large impact: out of the nine remuneration policy proposals that were voted down by the AGM, six reached between 25% and 50% dissenting votes. One company (biotech company Pharming Group) withdrew its proposals for a new executive remuneration policy, Supervisory Board remuneration policy and a new group-wide share option plan at the start of the AGM due to the large number of dissenting vote instructions. Two other companies (ForFarmers and Neways) withdrew their proposals for a Supervisory Board remuneration policy as they had second thoughts regarding the proposed increase in the Supervisory Board remuneration in the middle of the Covid-19 pandemic.
- 2020 was the first year that shareholders of Dutch listed companies had the possibility to cast an advisory vote on the remuneration report. Only the AGMs of AMG Advanced Metallurgical Group (AMG) and Vastned Retail issued a negative advise on the remuneration report. We hear from many shareholders that they see 2020 as an intermediary year. From next year onwards shareholders expect a higher degree of transparency in the remuneration reports.
- Apart from the remuneration proposals, six other management proposals were voted down. These were concentrated at three companies (Lavide Holding, Vastned Retail and Ctac) where specific major shareholders showed discontent with the operational and financial performance.

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[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, including Royal Dutch Shell PLC.

- In the last 15 years, the size of the issuance authorisation was always the most controversial issue. This is not the case anymore; Dutch listed companies seem to have embraced the 10% authorisation limit to issue new shares without pre-emptive rights as incorporated in many institutional investors' voting guidelines and as recommended by Eumedion and the proxy advisory firms.
- For the 2020 AGM season, 19 new executives were nominated; 7 of them were female (37%). 67 new supervisory directors were nominated; 35 of them were female (52%). For the first time in history more women were nominated for a supervisory director position at Dutch listed companies than men. Consequently, the average number of female supervisory directors at Dutch AEX companies increased to 37% (with only ABN AMRO failing to meet the upcoming legal quota of having at least 1/3 female supervisory directors).
- Transparency on climate policy, climate risks and climate metrics has increased, but only a relatively small number of companies apply the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD): only 12 AEX companies, 7 AMX companies, 2 AScX companies and 1 local company. Amongst them are all listed financial companies: ING Group, NN Group, ABN AMRO Bank, Aegon, ASR Nederland, Van Lanschot Kempen, NIBC Holding and Euronext. Even oil and gas related companies such as Fugro and Boskalis do not follow the TCFD recommendations.

1. For the first time in history: virtual-only AGMs in the Netherlands

Due to the coronavirus outbreak it was far from a 'business-as-usual AGM season'. As the outbreak happened just after the first AGMs were convened, the 'first movers' were caught between two fires. On the one hand the Dutch government imposed several restrictions on public and private gatherings as part of its efforts to limit the spread of the coronavirus. On the other hand, Dutch company law does not facilitate general meetings where any physical attendance by shareholders is excluded, while listed companies have a statutory obligation to hold their AGM within six months after the end of the financial year; for most companies 30 June at the latest. Consequently, many companies that had scheduled their AGMs at the end of March/early April postponed their AGMs to June (with the expectation that at time in-person AGMs could be held), while others took restrictive measures with respect to shareholders' attendance at the meeting.

As an increasing number of companies had concerns with respect to the validity of AGM decisions when shareholders are restricted in attending the AGMs, Eumedion, together with the Association of Dutch Listed Companies VEUO, employers federation VNO-NCW and the Association of Private Investors VEB took the initiative for a lobby to establish emergency legislation for having the possibility to hold virtual-only AGMs during the 2020 AGM season. In the beginning of April, the Council of Ministers adopted a compromise proposal prepared by Eumedion, VEUO, VNO-NCW and VEB. Dutch Parliament acted very fast and adopted the emergency legislation within 13 days. The emergency legislation entered into force with retroactive effect from 16 March 2020. The emergency legislation also allowed companies to postpone the AGM with four months, i.e. the 2020 AGM can be held until 31 October 2020.

Under the emergency legislation the company's board may determine that shareholders may only access the AGM via electronic means (the 'virtual-only' AGM) even if the company's articles of association do not provide for this possibility. When convening a virtual-only AGM, the following requirements must be met:

- shareholders must be able to watch the AGM through a video or audio live stream;
- shareholders must be able to ask questions about the agenda items in writing or by electronic means (such as e-mail) up to 72 hours before the AGM;
- all questions asked by shareholders timely before the AGM must be answered ultimately during the AGM and these answers must be posted on the company's website or made available to shareholders by other electronic means; and
- the board must ensure that follow-up questions can be asked (e.g. through an online chat function), unless this requirement would be unreasonable under the then prevailing circumstances. According to the notes to the emergency legislation, the legislator expects from a company that it will grant this opportunity at least to the person representing shareholders' organisations (VEB, VBDO, Eumedion), which representative may also be a member or participant of such an organisation.

In total 41 'virtual-only' AGMs were held by Dutch listed companies; that is 43% of all Dutch listed companies. Amongst them were AEX companies Adyen, Aegon, AkzoNobel, ASM International, ASR Nederland, DSM, Heineken, Randstad and Unilever. At these virtual-only AGMs typically the CEO, the CFO, the Chairman and the company's secretary – if they were all Dutch – assembled at the headquarters of the company, while some other (in particular foreign) directors, such as the Chair of the Remuneration Committee and the Chair of the Audit Committee, attended from other locations. Sometimes also the external auditor was present at the company's headquarters, at other instances he or she delivered the presentation on the audit conducted remotely. Not all companies offered shareholders the possibility to ask follow-up questions for shareholders who raised questions in advance of the meeting.

All the other Dutch listed companies held a physical AGM with access restrictions for shareholders. After all, physical AGMs were still permitted, if there were no more than 100 people in attendance and a distance of at least 1.5 meters between attendees was maintained. However, in the convocations shareholders were strongly discouraged from physically attending the AGM, including by indicating that there was no opportunity for social interaction (no lunch, drinks, etc.) and expressly indicating that the company strived to minimise physical attendance in order to protect the health of all concerned. Almost all shareholders followed this recommendation; the attendance of shareholders at the physical AGMs was limited to between 0 and 10. This was stimulated by the fact that the overwhelming majority of these companies offered shareholders the opportunity to follow the meeting via a live audio or video cast and to ask questions in advance via email. Some companies also offered a possibility to ask follow-up questions via email or via a chat function. Also at physical AGMs the physical attendance of directors and officers of the company was kept to a minimum. Other directors and officers participated by telephone or video conference.

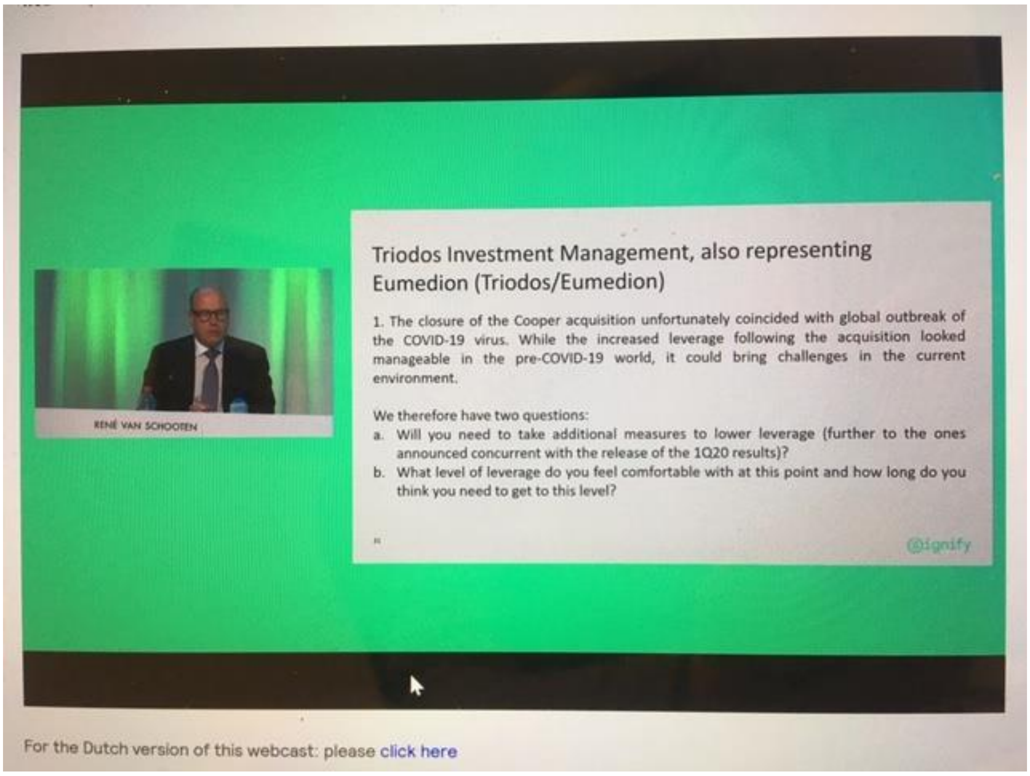
At the 2020 hybrid AGM of KPN only 1 shareholder was present in person (video still of webcast)

Royal Dutch Shell was the only listed company that tried to hold its AGM in the Netherlands with no physical attendance of external shareholders, no live voting, no live webcast and no Question and Answer (‘Q and A’) sessions. Shareholders were invited to register their questions ahead of the meeting. Shell proposed to place the responses to these questions on the Shell website in advance of the AGM. As Royal Dutch Shell is a UK PLC, Dutch company law is not applicable. Shell is obliged to apply UK company law even though the AGM is held in the Netherlands. UK’s emergency legislation allows companies to hold AGMs behind closed doors and to determine that shareholders are not allowed to participate in the meeting other than by voting. After pressure from Eumedion and a number of Eumedion participants, Shell decided to schedule a live audio webcast for shareholders 6 days ahead of the formal AGM and 2 days ahead of the voting deadline. During this webcast the Shell Board answered questions that were submitted by shareholders ahead of the webcast. It was also possible to send follow-up questions during the Q and A session and these were answered on the webcast by the Board. Consequently, the discussion that took place during the Q and A sessions – and the transcript of it – could be used by shareholders for determining their voting instructions regarding the AGM proposals. At the AGM itself only the votes were counted and based on the outcomes the Chair determined whether the proposals were approved or not.

Only seven, rather small Dutch listed companies used the option to hold the AGM after June 30: Ctac, RoodMicrotec, MKB Nedsense, IEX Group, Oranjewoud, Porceleyne Fles and Bever Holding. RoodMicrotec, Oranjewoud and Bever Holding opted for a later AGM because they were not able to publish their annual report and annual accounts in May. Ctac, MKB Nedense, IEX Group and Porceleyne Fles preferred to hold a physical AGM. As some lockdown measures are expected to ease after 1 July, these companies believed that shareholders were from that moment onwards more keen to attend the AGM in person than if the AGM was held in June.

Eumedion members' experiences

The experiences with virtual or 'semi-virtual' AGMs have been mixed. On the positive side: most companies were keen to virtually meet the Eumedion secretariat and the Eumedion members ahead of the AGM. They took the time to answer all our questions we had and most of the questions were answered in a satisfactory way. As a result, only a small number of Eumedion members' questions were left to be raised at the AGM. If companies did not offer the possibility to answer follow-up questions *at* the AGM, draft answers to written questions were exchanged prior to the AGM and if Eumedion members were not satisfied with the answers, there was the possibility to raise follow-up questions in writing. At AGMs where it was possible to raise follow-up questions these follow-up questions were properly addressed during the AGM. Positive examples in that respect were Aalberts, PostNL, KPN, Vopak, Fugro, NIBC and Aegon. Consequently, some interaction was still conceivable between shareholders on the one hand and executive and supervisory directors and the external auditors on the other hand. Besides this, many Eumedion members, were able to 'attend' more meetings this season with travel no longer a factor.



Question presented at the Signify virtual-only AGM (video still of webcast)

However, also some negative notes must be made. Most of the responses to pre-submitted shareholder questions were highly prepared and generally there was not much possibility to ask follow-up questions, let alone real-time questioning by shareholders. Consequently, a real, 'live' dialogue between shareholders and the executive and supervisory boards and external auditor was absent. A large number of virtual AGMs was rather boring, with pre-cooked presentations by the CEO and pre-cooked and short answers to shareholder questions read by the Chairman, who sometimes was uninspired and did not show any emotion. Many AGMs were finished in less than two hours (some even within one hour) with far fewer heated words on e.g. executive remuneration and the company's business, sustainability, strategy and performance than usual. Most companies only offered the possibility to give voting instructions to a proxy agent or civil law notary prior to the AGM; the directors' answers to the shareholder questions could therefore not be taken into consideration for determining the voting instructions by the shareholders. In short, virtual AGMs severely impacted effective, live interaction between shareholders and the board and the external auditor *at* the AGM and as such negatively impacted the board's and the external auditor's accountability towards shareholders. Our preference would be to revert to a hybrid AGM model (physical ánd online participation), with also the possibility of real time, online voting after the Covid-19 pandemic subsides. This may offer more convenience and less time commitments, allowing more institutional investors, in particular foreign institutional investors, to find their way to the AGM. Also the 'Shell solution' of having a Q and A session between shareholders and the Board ahead of the AGM voting deadline would be worthwhile to explore. That would mean that the 'discussion part' of the AGM would be separated from the 'voting part' of the AGM. This would contribute to a more informative vote by shareholders.

2. Significantly lower number of votes cast at AGMs of companies with a relatively large number of retail investors and short sellers

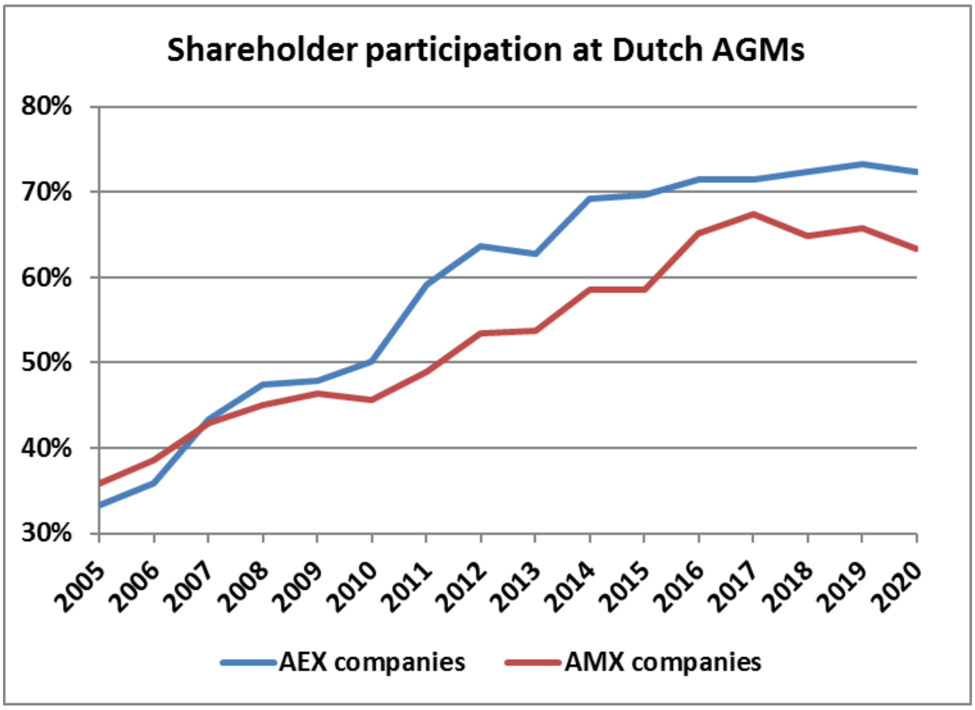
We see a clear dichotomy in the number of votes cast at 2020 AGMs of companies with a high and relative stable institutional shareholder ownership and companies with a relatively high number of retail share ownership and which are confronted with relatively high short sell activities. With respect to the first category of companies – mostly AEX companies – the number of votes cast at the AGMs was approximately on the same (high) level as in the last years (see also graph 1 below). It seems that the voting instruction process for the vast majority of institutional investors has not been disrupted by the Covid-19 pandemic. The number of votes cast at the AGMs of e.g. ASML, DSM, IMCD, ING Groep, KPN, NN Group, Philips, Randstad, Wolters Kluwer, Aalberts, Arcadis, Basic-Fit, Intertrust, OCI and Vopak was even higher than in 2019.

We see a rather different picture at companies that have a relatively large retail share ownership base, including Ahold Delhaize (± 30%), BAM Groep (± 40%), PostNL (± 15%) and Heijmans (± 38%). At the AGMs of these companies the participation rate of shareholders was significantly lower than in 2019 (see table 1 below). It therefore seems that retail investors faced more challenges with remote voting or are less interested in voting if they cannot attend the AGM in person. We also see a relatively low number of votes cast at the AGMs of companies which shares are a popular 'target' for short sellers, e.g. Wereldhave (± 20% net short positions at voting record date), Fugro (± 15%), AMG (± 11%), PostNL (± 5%) and Signify (± 5%). The short sellers' shares are usually lent by long-term investors; investors that generally vote at AGMs. The parties that borrow the shares will usually be 'young' investors, who are less inclined to vote the shares they recently acquired.

Table 1: Companies with a relatively steep decrease in number of votes cast at the 2020 AGM (excluding votes cast by Trust Offices)

Company	**AGM 2019 #votes cast**	**AGM 2020 #votes cast**
Ahold Delhaize	68.4%	60.7%
BAM Groep	32.4%	21.7%
PostNL	40.5%	26.4%
Heijmans	30.0%	21.0%
Fugro	43.2%	30.4%
AMG	50.1%	24.0%
Wereldhave	36.0%	30.0%
Signify	75.0%	63.6%

Graph 1: Average number of votes cast at AGMs of Dutch AEX and AMX companies



3. Overview of most controversial voting items

This year, 1037 voting items were tabled at the AGMs of Dutch listed companies, one of them was a shareholder proposal.

Controversial shareholder resolution

The shareholder proposal was submitted by Follow This, a group of Shell shareholders that supports Royal Dutch Shell to take leadership in the energy transition to a net-zero emission energy system. The Follow This shareholder resolution requested Shell to set and publish targets that are aligned with the goal of the Paris Climate Agreement to limit global warming to well below 2°C above pre-industrial levels. These targets need to cover the greenhouse gas emissions of the company's operations and the use of its energy products (scope 1, 2 and 3), to be short-, medium-, and long-term, and to be reviewed regularly in accordance with best available science. As in earlier years when Follow This submitted a more or less similar resolution, the resolution was voted down by the Shell AGM. However, this year's shareholder support (14.4%) was considerably higher than in 2018 when only 5.5% of the share capital present or represented at the Shell AGM voted in favour of the resolution. A large, but somewhat declining, majority of shareholders is still satisfied with Shell's own climate "ambitions". Indeed, at the same day as Shell's AGM was convened, the company announced a new ambition to reduce its own operational (scope 1 and 2) emissions to net zero by 2050 or sooner and to reduce the net carbon footprint of the energy products Shell sells to its customers (scope 3) by around 65% by 2050 (increased from 50%), and by around 30% by 2035 (increased from around 20%). It is also Shell's ambition to help its customers in reducing the emissions from their use of Shell's energy products to net-zero by 2050 or sooner. Shareholders that supported the Follow This resolution remarked that Shell's operating plans and budgets do not reflect the newly announced ambitions yet. Moreover, Shell maintained the disclaimer that the plans and budgets will be kept in step with society's and customers' progress towards a net-zero economy. This implies that if society and the Shell customers do not change their energy demand – and their emissions – more quickly, Shell may reduce its climate ambitions. In that way, the instrument of long-term, non-committal, "ambitions" used by Shell is more flexible than the instrument of setting long-term "targets" as was requested in the shareholder resolution.

Other controversial proposals

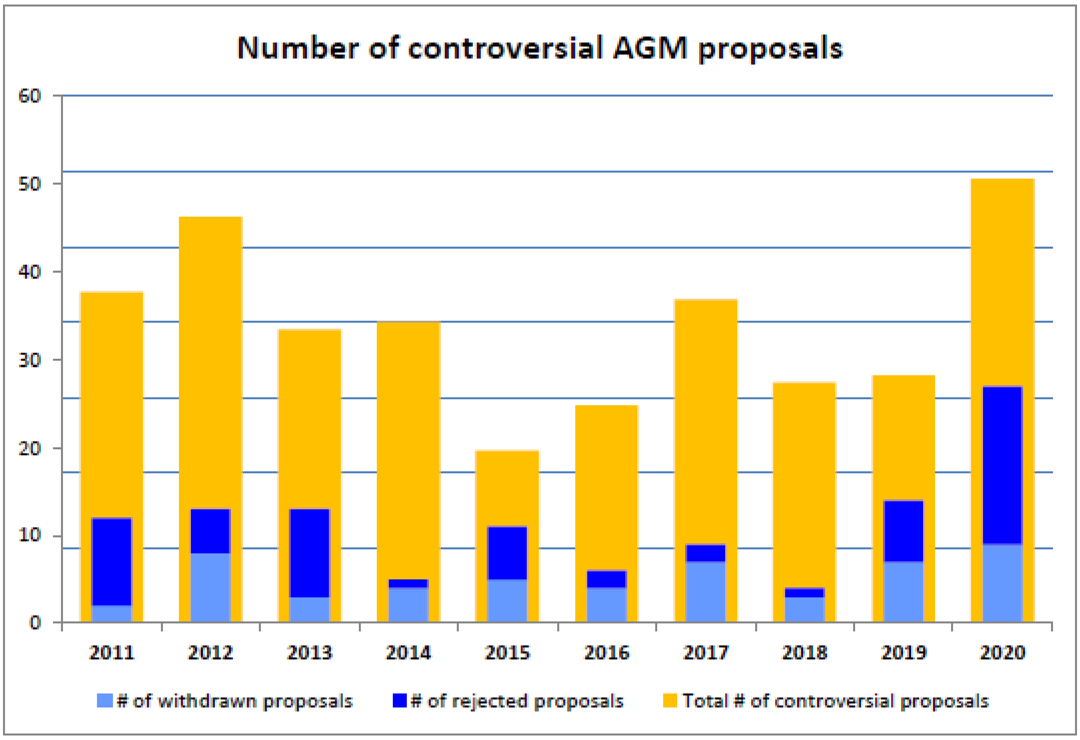
Despite the outbreak of Covid-19, shareholders have remained focused on board accountability and strong governance practices. Executive and supervisory directors' remuneration was by far the most controversial topic during this year's AGM season. 24 out of the 50 controversial voting items (items that received at least 20% dissent) were related to this topic (see appendix 1 for the full overview of the controversial voting items). Eight proposals for a new or updated executive remuneration policy (at BE Semiconductor Industries (BESI), AMG, Wolters Kluwer, Euronext, Flow Traders, Vastned Retail and Ctac) were rejected by the AGM and two AGMs issued a negative advice on the remuneration report (at AMG and Vastned Retail). Additionally five remuneration proposals – amongst them three proposals for a new Supervisory Board remuneration policy – were withdrawn prior to or at the start of the AGM (see appendix 2). Section 4 of this report contains a more in-depth discussion of the remuneration topics.

The last 15 years the board's authorisation to issue new shares without pre-emptive rights was the most controversial voting item. However in 2020 only 16 out of the 50 (32%; in 2019: 58%) controversial voting items were related to this subject. Most likely explanation for this is decrease is that most Dutch listed companies, including the smaller companies, have now aligned their share issuance authorisations without pre-emptive rights to the 'new normal' in the Dutch market, i.e. a maximum of 10%.

As the Covid-19 outbreak happened just before the start of the 2020 AGM season, a substantial number of companies decided to withdraw the final dividend proposal from the AGM agenda ahead of the AGM. 11 out of the total of 20 proposals that were withdrawn prior to or at the start of the 2020 AGM were related to the dividend proposal (see appendix 2).[3]

The fact that almost all Dutch listed companies were required to submit their remuneration policy for a vote this season and the greater shareholder scrutiny of these proposals led to a record high number of controversial and rejected voting items (see graph 2).

Graph 2: Number of controversial AGM proposals



[3] Much more Dutch listed companies decided to refrain from proposing a final dividend over financial year 2019 as a result of the uncertainties relating to the Covid-19 crisis, but took this decision before the AGM agenda was published. E.g. all financial companies cancelled or postponed their proposed final dividend following the recommendations made by the European Central Bank, the Dutch central bank (DNB) and the European Insurance and Occupational Pensions Authority (EIOPA). The number of withdrawn dividend proposals is not included in graph 2 on 'controversial AGM proposals' as these proposals were not directly considered to be 'controversial' from a shareholder perspective.

4. Shareholders reject excessive remuneration proposals

Following the implementation of the revised EU Shareholder Rights Directive ('SRD II'), all Dutch listed companies were required to submit their 2019 remuneration report for an advisory vote to the 2020 AGM and a large majority also had the renew their remuneration policy for the executive and supervisory directors. Since 1 December 2019, such a new remuneration policy needs the support of at least 75% of the votes cast in a general meeting, if the company's articles of association do not stipulate a lower majority. Dutch listed companies are since then also required to explain how the remuneration policy takes the 'social acceptance' into account.

In the 2020 Focus Letter, Eumedion encouraged the Dutch listed companies to consider the 2019 Eumedion principles for a sound remuneration policy for members of the management board of Dutch listed companies in reviewing and preparing a new or updated remuneration policy. Eumedion also encouraged companies to conduct meaningful engagement with relevant stakeholders of the company, including shareholders and employees, prior to presenting the final remuneration policy proposal to the AGM and to provide a feedback statement on the consulation conducted. Finally, Eumedion encouraged companies to structure and present the remuneraton report along the draft European Commission's guidelines on the standardised presentation of the remuneration report. Companies were in particular encouraged to demonstrate clear alignment of executive pay with the company's strategy and performance with at least disclosure of the performance measures, selection rationale and performance outcomes. This section presents an overview of the follow-up on these recommendations and the highlights of the AGM vote outcomes on the remuneration items.

4.1 Engagements regarding the new or updated remuneration policies

A large number of Dutch listed companies conducted engagements with individual shareholders, shareholder organisations and proxy advisory firms on a draft proposal to amend the remuneration policy for executives and supervisory directors. Some companies already started the engagement process in September 2019. Engagement with shareholders, preferably led by the Chair of the Remuneration Committee, is important to build relationships with the largest and most influential investors and investor organisations. Many companies also held conversations with their works council or with employee representatives. Since this year, the works councils of companies that are legally required to establish a works council have a formal right of advice regarding the proposed remuneration policy for executive and supervisory directors. All published advices of the works councils were positive.[4] In many cases, these advices with motivations were published on the company's website. However, some companies only mentioned that the works council issued a positive advice. Only the Wolters Kluwer works council "did not see added value in rendering a formal advice".

Some companies, in particular the financial companies, involved even a cross-section of their customers in the consultation. E.g. ING Groep instructed a specialised market research firm to elicit

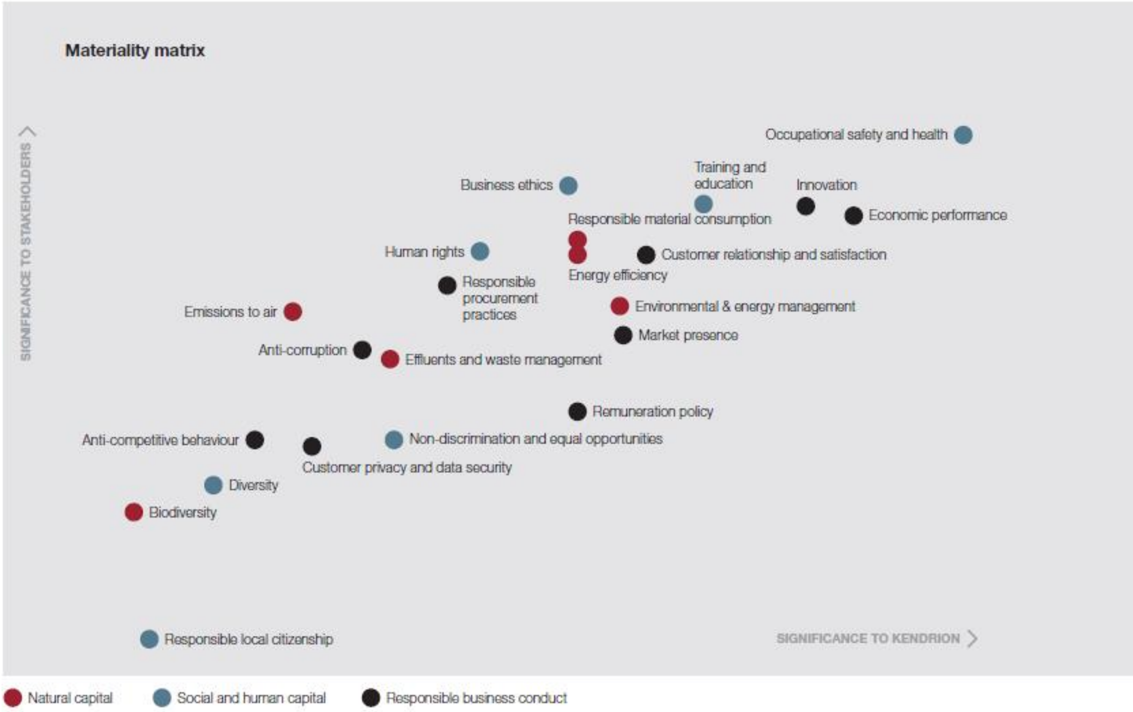
[4] Only the works councils of Brill and Hydratec did not issue or publish a formal advice.

qualitative feedback from ING's customers, while NN Group involved its clients via dedicated panel discussions. The Remuneration Committee of Van Lanschot Kempen itself consulted various groups of asset management, merchant banking and private banking clients. Moreover, ING Groep and Van Lanschot Kempen also held conversations with a number of political parties, probably as a proxy for the views of the general public on the proposed remuneration policy. NN Group even organised a panel discussion with individuals selected from the general public.

Non-financial listed companies did not conduct such extensive engagement programmes. Against the background of the current Covid-19 crisis with also some listed companies requiring state support, we recommend all large listed companies to undertake more extensive engagement programmes with all key stakeholders – not limited to shareholders, shareholder organisations, works councils and employee representatives. It is only with such an extensive engagement programme the company can conclude whether the policy can count on 'social support' or can explain how 'social support' was taken into account in preparing the remuneration policy. This year, at too many companies the Supervisory Board concluded by itself that the policy could count on social support or only remarked that it took 'social support' into consideration, with no explanation how that was done.

As a minimum Eumedion recommends to make the executive remuneration policy part of the periodic materiality assessments conducted by many listed companies. Via a materiality assessment, in accordance with GRI reporting standard 102 and taking into account the input from various stakeholder groups, a company identifies its material topics based on i) the significance of the company's economic, environmental, and social impacts and ii) their substantive influence on the assessments and decisions of stakeholders. The findings are then visualised in a so-called materiality matrix. Topics mentioned in the upper right-hand corner of the matrix can be considered as the 'most material' to the company, while the topics mentioned in the bottom left corner are less material. If 'executive remuneration policy' is mentioned in the bottom left corner and if all key stakeholders were included in the materiality assessment outreach, Eumedion believes it is reasonable to assume that the executive remuneration policy can count on social support. A number of companies, including Vopak, Arcadis and Kendrion (see graph 3), already included the executive remuneration topic in its materiality assessment. As mentioned, Eumedion encourages other companies to do the same.

Graph 3: Materiality matrix of Kendrion in which the 'remuneration policy' is considered to be a 'medium-sized material topic' (source: Kendrion 2019 annual report)



Companies that held extensive consultations with their key stakeholders were rather enthusiastic about the exercise. E.g. ING Groep concluded: "The insights gained from the stakeholder engagement process have significantly contributed to the quality of the remuneration policy that we intend to propose to shareholders". And Van Lanschot Kempen remarked: "The dialogue with stakeholders was very constructive. Gaining their views on executive pay in general, and our remuneration policy in particular, was very valuable".

Most companies provided a brief summary of the key discussion items during the consultation process in either the explanatory notes to the AGM agenda or in the remuneration report/report of the Remuneration Committee. Some companies provided direct feedback (via e-mail) to the stakeholders that were consulted.

4.2 Contents of the new or updated remuneration policies and AGM voting outcomes

A large majority of the companies made no substantial changes to the existing remuneration policy. These companies only proposed to align the remuneration policy with the new statutory requirements laid down in the Dutch SRD II Implementing Act. Ahold Delhaize and BESI only submitted the 'remuneration principles and procedures underlying the remuneration policy' in order to align the remuneration policy with the new legal requirements without changing the underlying policy. Only a small number of companies, including ASM International, Just Eat Takeaway.com, Royal Dutch Shell, Vopak and Corbion proposed a number of material amendments to the existing remuneration policy. The new remuneration policies of Just Eat Takeaway.com and Corbion will lead to a higher total at-target direct income for the executives, while the new remuneration policy of Shell reduces the CEO's total direct income by 20% in the situation of at-target performance.

Notwithstanding the fact that in most cases no substantial changes to the remuneration policy were proposed or that only the underlying principles and procedures were put forward, shareholders reviewed the (underlying) remuneration policy in full, with a fresh pair of eyes. As institutional investors are from this year onwards legally obliged to take the societal impact of each AGM proposal into account, institutional investors were in particular focused on possible extreme outcomes of the remuneration policy that was submitted for the 2020 AGM approval. In that respect they critically judged which companies were incorporated in the so-called labour market peer group – the typical companies' benchmark for determining the executives' total direct income levels (often at median level of this peer group). In particular if a substantial number of the peer group companies is incorporated in the United States (US), institutional investors expressed their concerns. The remuneration practices and culture of US companies differ very much from continental-European pay practices and culture. Consequently, executives' total direct income levels could then increase to far above the median remuneration levels of Dutch and of European peers. In that situation, the company can face significant reputational risks in the home market, particularly in the current difficult time. Other important factors that institutional investors took into account when judging this year's proposed remuneration policy were: i) transparency (in particular regarding at-target and maximum variable remuneration levels and regarding the variable remuneration performance measures and their weightings), ii) whether the company could demonstrate that the 'pay for performance' principle will be applied, iii) the 'size' of the discretionary authority for the Remuneration Committee to adjust the outcomes of the executives' variable remuneration and iv) the developments with regard to the internal pay ratio.

The AGM of five Dutch listed companies did not approve the proposed remuneration policy; while the supervisory directors of Pharming decided to withdraw the remuneration proposals at the start of the AGM. Table 2 provides an overview of these rejected and withdrawn proposals.

Table 2: Overview of executive remuneration proposals that were rejected or withdrawn

Company	**Reasons for rejection or withdrawal**
AMG	Absolute quantum of pay outcomes, driven by a relatively large number of US companies in in peer group
BESI	Absolute quantum of pay outcomes, large award of 'discretionary shares'
Wolters Kluwer	Absolute quantum of pay outcomes, driven by a large number of US companies in peer group
Euronext	Unbalanced composition of peer group, inadequate transparency, shareholder concerns regarding the previous remuneration policy were not addressed
SBM Offshore	Absolute quantum of pay outcomes, large share grant without performance conditions
Pharming	Inadequate transparency of reward levels and performance conditions of stock option plan and short vesting period
Flow Traders	Absolute quantum of pay outcomes, driven by direct link between bonus and operating profit and inadequate transparency on performance conditions.
Vastned Retail	Absolute quantum of pay outcomes against the background of lower dividend pay-outs in last 10 years
Ctac	Inadequate transparency on performance conditions for long-term incentives and possibility to grant 'matching shares' without any performance conditions

In the press release announcing the voting results, Wolters Kluwer, SBM Offshore, Euronext, Flow Traders, Vastned Retail, Ctac, BESI and Pharming mentioned the fact that the remuneration policy was not adopted or was withdrawn. However, only the first six companies briefly described the actions that they will take in preparing a new proposal, i.e. that they will further engage with shareholders around all remuneration matters. Eumedion encourages all companies that saw their proposed remuneration policies and/or other management proposals rejected to publicly explain what actions they intend to take to consult shareholders in order to understand the reasons behind the outcome.

As mentioned earlier, the 2020 AGM season took place in the midst of the Covid-19 pandemic. A substantial number of companies decided to cancel or postpone their final dividend, to suspend their share buy-back programme, to withdraw or revise their financial guidance and to implement a programme to significantly reduce costs and capital expenditures, with the aim to prepare for the (financial) impact that the Covid-19 pandemic might cause. Some of them already took measures to reduce the workforce and a number of companies applied for government support. Consequently a number of companies took measures to already align executive pay with company performance and shareholder and employee experience. If dividend payments are cancelled and/or the workforce('s pay) is cut, Eumedion expects that directors demonstrate shared sacrifice by also temporarily reducing their base salary and/or by cancelling their 2020 bonuses. Table 3 provides an overview of the remuneration and other board-related measures taken by Dutch listed companies so far.

Table 3: Remuneration and other board-related measures taken by Dutch listed companies in response to the Covid-19 pandemic

Company	**Board-related measures take in response to the Covid-19 pandemic**
Heineken	20% pay cut for executives No 2020 bonuses for executives
Prosus	No pay increase for executives No pay increase for non-executives
Randstad	No 2020 cash bonuses for executives
Shell	No 2020 group performance bonuses for executives
Aalberts	20% pay cut for executives
Air France-KLM	25% pay cut for CEO, Chair and non-executives No 2020 cash bonus for CEO
Arcadis	10% pay cut for executives No 2020 cash bonuses for executives
BAM Groep	20% pay cut for executives and supervisory directors
Basic-Fit	50% pay cut for all executives
Boskalis	Proposed increase of total direct income for executives postponed Proposed pay increase for supervisory directors postponed
Eurocommercial Properties	20% pay cut for executives No 2020 short term bonuses and long term share awards for executives
Fugro	Undisclosed pay cut for executives
SBM Offshore	20% pay increase for CEO postponed
Signify	20% pay cut for executives
Accell Group	No 2020 short and long-term bonuses for executives CEO will refrain from proposed increase of his short-term (cash) bonus in general as included in the revised remuneration policy
Ajax	Undisclosed pay cut for executives

ForFarmers	Proposed pay increase for supervisory directors withdrawn from AGM agenda
Kendrion	15% pay cut for executives and supervisory directors Proposed pay increase for supervisory directors postponed
Lucas Bols	No variable remuneration for executives for the 2019/20 financial year and the first half of 2020/21
Neways	Proposed pay increase for supervisory directors withdrawn from AGM agenda
Ordina	11% pay increase for CEO and 16% pay increase for CFO postponed
Vastned Retail	15% pay cut for executives and supervisory directors
Wereldhave	Size of supervisory board reduced from 4 to 3 members
Core Laboratories	20% pay cut for executives
DPA	No pay increase for executives
Kardan	No 2020 bonus for CEO
WFD Unibail - Rodamco	25% pay cut for executives

Table 3 shows that the executives' compensation cuts so far are mainly in fixed salary and not in the long-term incentive plans, while such plans consist of an ever increasing part of executives' total compensation. It is expected that only when the next remuneration report is published we will see whether and if so, how companies have made adjustments to their long-term incentive plans, such as revaluing or resetting triggers, which companies generally have tried to hold off on to avoid windfalls depending on the stock price. Eumedion is not in favour of possible downward revisions of the long-term incentive targets during the performance period due to the Covid-19 pandemic. Any such decisions will surely impact the votes on the 2020 remuneration report.

4.3 Most companies maintain the 75% AGM voting threshold for adopting remuneration policies

Since 1 December 2019 a majority of at least 75% of the votes cast at a general meeting of a Dutch listed company is needed to approve the remuneration policy. The Dutch legislator's intention with this measure was to strengthen the supervisory function of the AGM on executive remuneration and to create a wider shareholder support for an amended executive remuneration policy. At the same time, the legislator decided that the company's articles of association may stipulate a lower voting majority as a threshold, but this should not become standard practice. Moreover, such a proposal should be well-reasoned.

During the 2020 AGM season, only AMX company Altice Europe proposed to lower the voting (and quorum) threshold for adopting the remuneration policy to a simple majority in order to align this requirement with the current requirements applicable to an AGM resolution to determine the remuneration of each individual Altice Europe Board member (i.e. an absolute majority of the votes cast in a general meeting in which at least 50% of the issued capital is present or represented; at Altice Europe, the AGM decides upon the remuneration packages of each Board member). As a result of Altice Europe's shareholder structure (the founder who is also the Board's president holds approximately 74% of the votes), the proposal was adopted. Almost all minority shareholders, representing approximately 97% of the votes cast by shareholders not related to the founder, voted against.

Although this year only one already listed company proposed to lower the AGM voting threshold for adopting remuneration policies from 75% of the votes cast to a simple majority, there is a trend that newly listed companies already incorporate this lower threshold in their new articles of association as they go public. This year, this happened at CM.com and JDE Peet's and last year at Prosus. Also companies that are in the process of transferring their statutory seat to the Netherlands – including the Italian companies Mediaset and Campari Group – incorporate the 'simple majority voting threshold' into their new articles of association. Eumedion encourages 'new' Dutch listed companies (whether is via an IPO or coming from abroad) and their legal advisers to act in a more responsible way and to stick to the spirit of the new law by incorporating the 75% voting threshold in the articles of association and to discuss with their new, external shareholders whether it is appropriate to lower this voting threshold given the specific circumstances of the company. This is the more important given the fact that shareholders of almost all Dutch companies do not have the right to initiate an amendment to the company's articles of association.

4.4 Quality of remuneration reports

This year was the first year that Dutch listed companies were required to submit their remuneration reports for an advisory vote to the AGM. This year's AGM voting outcomes show a relatively strong correlation between the number of votes cast against the remuneration policy and the number of votes cast against the remuneration report. The remuneration reports of Vastned Retail (61.6%), AMG (51.3%), BESI (48.5%), Wolters Kluwer (47.0%), Flow Traders (33.5%), Pharming (26.1%), Basic-Fit (24.1%) and Aalberts (20.4%) suffered the strongest shareholder resistance, almost similar to the number of votes cast against their proposed remuneration policy.[5] This demonstrates that many shareholders 'use' their advisory vote on the remuneration report for sending a message to the Remuneration Committee that they are dissatisfied with the underlying policy and that the policy should be reviewed. Regrettably, none of the afore-mentioned companies made any public statement in response to the significant vote against. Eumedion expects that the Remuneration Committees of the afore-mentioned companies reach out to the dissenting shareholders, investigate their concerns and make a public announcement, summarising the views received from shareholders and what the company has done or proposes to do in response.

In the 2020 Focus Letter, Eumedion encouraged companies to prepare their remuneration reports in accordance with the draft European Commission Guidelines on the standardised presentation of these reports. Application of these guidelines would increase consistency and comparability among European listed companies. Dutch listed companies were generally reluctant to take the draft European guidelines on board, as these guidelines were not finalised in the beginning of this year. They were also concerned that they have to change the structure of the remuneration report again next year if the final version of guidelines substantially differs from the draft guidelines. Consequently, the 2019 remuneration reports of Dutch listed companies did not show a common format.

[5] The proposed remuneration policy of Pharming was withdrawn at the start of the AGM; see section 4.2.

For shareholders it is key that the remuneration reports demonstrate alignment between executive pay and the company's strategy and performance. Full disclosure of performance measures, the selection rationale and an explanation of the outcomes in comparison with the targets set are in that respect most important. Current Dutch market practice is that the company discloses per annual bonus performance measure whether the outcome was 'below target', 'at target' or 'above target'. A number of companies already made the next step by disclosing per performance measure the actual outcome versus the target set at the beginning of the performance period. Best practices in this respect are the 2019 remuneration reports of **Vastned Retail, PostNL and ForFarmers**. We encourage other Dutch listed companies to follow these examples and further increase the transparency on bonus outcomes in comparison with the targets set in the 2020 remuneration report. Lack of transparency was the main reason why the remuneration reports of companies including Signify, Aegon and Ahold Delhaize received between 10% and 20% dissenting votes. We expect that next year even more shareholders consider to vote against the remuneration report if transparency remains below-par.

Furthermore, Eumedion encourages companies i) to apply a uniform methodology in presenting the internal pay ratios and to better explain the year-on-year development of this ratio, ii) to not only disclose the costs of the performance share and/or stock options on IFRS basis, but also the market value of the vested performance shares and/or stock options in the performance year and iii) that in the mandatory table on linking the remuneration outcomes with the company's performance, the company's performance is expressed through showing the five years development of the long-term (financial and non-financial) value drivers of the company.

5. Reporting and auditor reports during the Covid-19 pandemic

The significance and speed of the spread of the coronavirus completely overtook the Dutch listed companies. At the start of the reporting season – seven Dutch listed companies published their 2019 report in the first half of February 2020 – only ASML and SBM Offshore mentioned Covid-19 as a risk factor and uncertainty respectively. The other 'early reporters' did not spend a word on the outbreak of the coronavirus. Only the reports published as from the end of March contain a special section on the possible impact of Covid-19 on the business and the financial position. In a limited number of cases, the executive board also made an explicit assessment on the company's ability to continue as a going concern, due to an abrupt drop in revenue and profit and the uncertainty of how long the pandemic and the accompanying government containment measures would last. In that respect the executive board prepared a financial and liquidity risk analysis addressing amongst others future compliance with financing covenants as well as the financing and cash requirements to ensure continuation of the company's operations.

The uncertainty about the impact of Covid-19 on the financial performance and health of companies prompted external auditors as from 20 March 2020 onwards to include a so-called emphasis of the matter paragraph in their reports and opinions. Consequently, 17 Dutch listed companies, including

AEX companies ASR Nederland and Adyen and AMX companies Pharming and Altice Europe, could not incorporate a 'clean' auditor's report in their 2019 financial report. This 'audit practice' terminated mid-May, probably in order to differentiate more between companies that are materially impacted by the Covid-19 pandemic and companies that are less impacted or are even positively impacted. Otherwise such an emphasis of the matter paragraph would become boilerplate and would lose its function to send a signal to the users of the annual accounts. Consequently, the auditor's reports included in the annual financial reports of 'late reporters' Envipco Holding, Lucas Bols and Holland Colours only contain a key audit matter related to the Covid-19 pandemic.

More in general, the auditor reports included in the 2019 financial reports further increased in transparency and relevance. Almost all auditor reports contained a separate section on the specific audit activities related to fraud risks (sometimes mentioning the specific involvement of one or more forensic experts) and to risks of non-compliance with laws and regulations. Some external auditors even included a specific section on their audit activities related to going concern. In this context, the external auditor of Hydratec characterised 'transactions with parties in high-risk countries' as one of the key audit matters. The external auditors of AkzoNobel, Intertrust and Kardan highlighted in their key audit matters section an increased risk of management override of internal controls. At AkzoNobel this was due to the board's decision to set a specific and ambitious external target on return on sales by 2020, while the external auditor of Intertrust referred to a possible incentive or pressure to reach analyst expectations. Kardan's external auditor pointed to the company's geographical footprint and decentralised structure. For the second year in a row, the external auditor of Altice Europe mentioned the company's corporate governance structure as one of the most significant issues in the audit. The external auditor explicitly referred to the fact that Altice Europe's controlling shareholder has the power to control the decision making within the board. The external auditor of Brill characterised deficiencies in the company's internal control environment as a key audit matter. We appreciate these disclosures made by external auditors.

With the exception of a small number of companies[6], none of the audit committees has incorporated in their reports a reflection on the external auditor's key audit matters. Eumedion strongly encourages audit committees to do that from next year onwards, in order to increase the essential communication between external auditors, the audit committees and the shareholders.

6. A limited number of listed companies report climate risks and opportunities in accordance with the TCFD reporting framework

In its 2020 Focus Letter, Eumedion requested all Dutch listed companies to report clearly in their 2019 annual report on the impact of climate change on their business model and strategy and on the impact of the own company on climate change. Eumedion also expected companies to set specific targets with respect to CO2 emission reductions, in line with the Paris Climate Agreement. Eumedion also encouraged the companies to disclose the climate-related information in accordance with the

[6] ASR Nederland, DSM, NN Group, TKH Group, Sligro Food Group, Avantium, Van Lanschot Kempen, NIBC Holding and Ctac.

European Commission's Guidelines on reporting climate-related information.[7] The Guidelines build upon the 2017 recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

The 2019 annual reports show a wide variety in climate reporting. A number of companies consider climate-related risks in their risk identification processes. However, climate-related risk taxonomies are very heterogeneous. If at all mentioned, climate-related risks are typically integrated within existing risk categories, such as business/strategic risk or operational/reputational risk. Approaches to assess their materiality, however, are limited in terms of depth and sophistication.

Also public disclosure practices of climate-related risks are sparse and heterogeneous. The level of disclosures is correlated with size: the larger the company, the more comprehensive the disclosures. Of the companies that disclose climate-related risks, very few companies were transparent as to the definitions and methodologies used. Only 22 companies (23% of all Dutch listed companies) mentioned that they report in line with the recommendations by the Task Force on Climate-related Financial Disclosures (TCFD).[8] Best practices in this regard are NN Group and Aegon. Although AMX company NSI does not formally report its climate risks and opportunities in accordance with the TCFD recommendations, the company has incorporated a rather insightful and informative analysis of the risks of climate change to the company (see appendix 3).

Almost all Dutch AEX companies now report on CO2 emissions, but most om them limit reporting to scope 1 and 2. With the exception of IMCD, Just Eat Takeaway.com and Wolters Kluwer, all Dutch AEX companies have set climate-related targets or ambitions. This number is much lower for Dutch AMX companies: only 48% of them have set and published specific climate-related targets or ambitions. A number of the Dutch AEX and AMX companies also has set the ambition to become climate-neutral, but it is often not clear whether this ambition only applies to scope 1 and 2 or also covers scope 3. Some have set this ambition for 2050 (e.g. Shell, DSM, AkzoNobel, Boskalis and Vopak), but others strive for being carbon neutral by year-end 2020 (e.g. Philips and Signify), 2025 (e.g. ASML), 2030 (e.g. KPN and Arcadis), 2035 (NSI) or 2039 (Unilever).

Still a minority of Dutch listed companies has requested the external auditor to provide *limited* assurance to the sustainability information and metrics published by the companies.[9] And only a handful of companies has requested its external auditor to provide *reasonable* assurance to the non-financial or sustainability information published by these companies (Philips, DSM, ABN AMRO, PostNL and Signify) or to a selected number of key performance indicators related to sustainability (KPN, ING Groep and BAM Groep). Some of the companies remark in the investor engagements that the lack of a uniform methodologies hampers them to provide reliable and consistent non-financial information.

[7] Document C(2019) 4490 final, as published on 17 June 2019.
[8] It is possible that not all listed companies explicitly make a reference to the TCFD recommendations, but are in fact reporting in accordance with these recommendations.
[9] ASR Nederland, NN Group, AkzoNobel, Ahold Delhaize, Heineken, ASML, Vopak, SBM Offshore, Arcadis, Corbion, Boskalis, Van Lanschot Kempen, ForFarmers, Ordina and Heijmans.

7. Strong increase in number of women on boards

In October 2019, Eumedion members urged Dutch listed companies to take decisive action towards achieving a more gender balanced executive and non-executive boards. Eumedion members firmly believe that gender diversity at the board level contributes to greater effectiveness in light of growing evidence that gender-diverse groups make better decisions and produce better results in the long term. Also, a diverse executive boards set a tone at the top which contributes to companies' ability to attract and retain diverse talent at all levels of the company. To underline the members' stance on gender diversity, Eumedion sent a letter to all Dutch listed companies.

Besides this investors' call, the Dutch government prepared draft legislation requiring all Dutch listed companies to comply with a quota of at least one-third for both women and men on supervisory and one-tier boards. New appointments which do not contribute to a gender-balanced supervisory or one-tier board will be void. A second element of the draft bill is that all "large" Dutch companies – whether listed or unlisted – will have to set ambitious gender balance targets for their boards and senior management.

Probably as a result of the investors' call and the upcoming legislation, the number of female nominations to the boards strongly increased. Between 1 October 2019 and 13 July 2020 Dutch listed companies nominated 19 new executive directors, 7 were female (37%). They nominated 67 new supervisory directors 35 of them were female (52%). Consequently, the average number of female executive and supervisory directors at the 50 largest Dutch companies steeply increased in 2020 (see table 4 and 5). Of all AEX companies, only the Supervisory Board of ABN AMRO Bank has not reached the legal requirement of at least 1/3 female supervisory directors yet. Smaller companies face more challenges in nominating female supervisory directors: e.g. 8 AMX companies are not yet compliant with the upcoming legal requirement (Altice Europe, Basic-Fit, BESI, Flow Traders (with still 0 female supervisory directors!), GrandVision, OCI, Pharming and SBM Offshore).

Table 4: gender-diversity in the boards of Dutch AEX companies (situation at 1 July each year)

	2009	2014	2018	2019	2020
Female executives	5%	6%	9%	10%	19%
Female supervisory directors	17%	26%	33%	35%	37%

Table 5: gender-diversity in the boards of Dutch AMX companies (situation at 1 July each year)

	2009	2014	2018	2019	2020
Female executives	0%	8%	7%	8%	13%
Female supervisory directors	9%	14%	22%	25%	29%

Appendix 1: AGM proposals with strongest shareholder resistance (more than 20% against votes; excluding votes cast by Trust Offices)

AGM	Subject	Result
Shell	Setting and publishing targets that are aligned with the goal of the Paris Climate Agreement (shareholder resolution)	85.6% against (**resolution voted down**)
Lavide Holding	Authority to issue new shares (up to 100% of authorised capital)	63.4% against **(resolution voted down)**
Lavide Holding	Disapplication of pre-emption rights	63.4% against **(resolution voted down)**
Vastned Retail	Remuneration report	61.6% against **(resolution voted down)**
Vastned Retail	Executive remuneration policy	61.5% against **(resolution voted down)**
Vastned Retail	Authority to repurchase shares	61.1% against **(resolution voted down)**
Heijmans	Reappointment Supervisory Board member	56.7% against[10]
Ctac	Executive remuneration policy	56.2% against **(resolution voted down)**
Vastned Retail	Discharge Executive Board	55.9% against **(resolution voted down)**
AMG	Executive remuneration policy	51.3% against (**resolution voted down**)
AMG	Remuneration report	51.3% against **(resolution voted down)**
Ctac	Amendment Articles of Association	51.2% against **(resolution voted down)**
Ctac	Disapplication of pre-emption rights	51.2% against **(resolution voted down)**
BESI	Executive remuneration policy	49.7% against (**resolution voted down**)
Vastned Retail	Discharge Supervisory Board	49.5% against
Vastned Retail	Adoption Annual Accounts	49.5% against
Vastned Retail	Supervisory Board remuneration policy	49.4% against **(resolution voted down)**
Vastned Retail	Reappointment external auditor	49.4% against
BESI	Remuneration report	48.5% against
Wolters Kluwer	Executive remuneration policy	47.9% against (**resolution voted down**)
Wolters Kluwer	Remuneration report	47.0% against
Brill	Disapplication of pre-emption rights	46.7% against
Heijmans	Remuneration report	42.4% against
Heijmans	Executive remuneration policy	42.3% against[11]
Heijmans	Disapplication of pre-emption rights	42.3% against
Brill	Authority to issue 20% new shares	42.2% against
Brill	Authority to repurchase shares	42.2% against
Flow Traders	Executive remuneration policy	41.3% against **(resolution voted down)**
Just Eat Takeaway.com	Disapplication of pre-emption rights second tranche of 10% share issuance	40.0% against
Heijmans	Authority to issue 20% new shares	38.7% against
Euronext	Executive remuneration policy	36.8% against **(resolution voted down)**
Flow Traders	Remuneration report	33.5% against
SBM Offshore	Executive remuneration policy	30.0% against **(resolution voted down)**

[10] Proposal was approved with 88.1% votes in favour due to the votes cast by the Heijmans Trust Office.
[11] Proposal was approved with 91.1% votes in favour due to the votes cast by the Heijmans Trust Office.

Fugro	Authority to issue new shares, second tranche of 10%, with pre-emption rights	30.0% against
Heineken	Amendment Articles of Association	28.0% against
NSI	Authority to issue new shares, second tranche of 10%	26.2% against
Pharming	Remuneration report	26.1% against
NSI	Disapplication of pre-emption rights, second tranche of 10% share issuance	26.0% against
TomTom	Disapplication of pre-emption rights, second tranche of 10% share issuance	24.5% against
Basic-Fit	Remuneration report	24.1% against
Basic-Fit	Executive remuneration policy	22.7% against
Just Eat Takeaway.com	Authority to issue 20% new shares	22.2% against
Acomo	Executive remuneration policy	21.8% against
Nedap	Remuneration report	21.6% against
Corbion	Authorisation to issue new shares, second tranche of 10%	20.9% against
TomTom	Authority to issue new shares, second tranche of 10%	20.8% against
Corbion	Disapplication of pre-emption rights, second tranche of 10% share issuance	20.6% against
Aalberts	Remuneration report	20.4% against
Aalberts	Executive remuneration policy	20.3% against
Accell Group	Supervisory Board remuneration policy	20.1% against

Appendix 2: Proposals withdrawn ahead or at the start of the AGM

AGM	**Proposal**
Pharming	Executive remuneration policy
Pharming	Supervisory Board remuneration policy
Pharming	Share Option Plan for employees and executives
Neways	Supervisory Board remuneration policy
Neways	Dividend pay-out
ForFarmers	Supervisory board remuneration policy
Wereldhave	Re-appointment Supervisory Board member
Wereldhave	Dividend pay-out
Heijmans	Dividend pay-out
Arcadis	Dividend pay-out
Arcadis	Authorisation to issue new shares in relation to paying stock dividend
ING Groep	Dividend pay-out
ABN AMRO Bank	Dividend pay-out
Intertrust	Dividend pay-out
BAM Groep	Dividend pay-out
Accell Group	Dividend pay-out
Philips	Dividend pay-out
Brill	Reappointment Chairman Supervisory Board
Lavide Holding	Discharge Executive Board
Lavide Holding	Discharge Supervisory Board

Appendix 3: Climate change impact reporting by NSI (good practice)

CLIMATE CHANGE

Climate change is one of the main financial risks identified by global business leaders and investors. One of the elements in climate change risk is an absence of tenant demand for a specific location due to climatologic characteristics of a specific location.

Obviously, this does not happen overnight and also differs significantly from one region to another. Overall, Europe is not the region known for being disrupted by natural disasters such as hurricanes, tsunamis or extreme drought. For the last two decades however, hardly a year has gone by without extreme weather or weather-related disasters in Europe. This included floodings in several countries such as Switzerland, Italy, France and the UK, severe heat waves and droughts (2003, 2010 and 2018), large-scale wildfires in southern and eastern Europe (2007, 2010 and 2017) and hailstorms in Germany in 2013.

The Netherlands has also experienced weather conditions such as extreme precipitation, (hall and wind) storms and drought. These however should be seen in perspective of its geographical position. Historically, the country has been familiar with the risk of flooding. Overall, the Netherlands has protected itself well against the risk of flooding in coastal areas and near rivers. Nevertheless, these weather events should be considered when making real estate decisions.

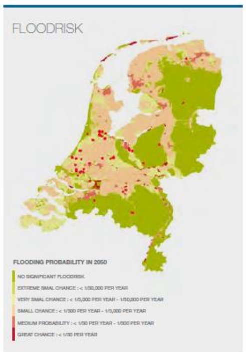
NSI has performed a risk assessment of its real estate portfolio, focusing on what are considered to be the most apparent climate change risks in the Netherlands: waterlogging, flooding, drought and heat.

Our research into the risks of climate change will form part of our total asset strategy and should make our business more resilient. We need to make sure our properties are well maintained and equipped to deal with expected climate change effects. Moreover, we should ensure that new properties are designed in a way that mitigates these effects. In our development pipeline, we are designing and constructing high-quality buildings and spaces capable of delivering operational resilience over their lifetime.

At present, we assess the level of impact from climate change effects up to 2050 as medium.

Water logging

It is widely expected that the amount of precipitation in the Netherlands will increase significantly in the coming 30 years. The graph provides an indication of the maximum depth in the case that location endures precipitation of 70mm in two hours (this occurs once every century). The majority of our assets is currently situated in areas where precipitation is expected to have an impact. However, the infrastructure in the Netherlands



provides that precipitation will be drained in most of our asset locations nearby waterways.

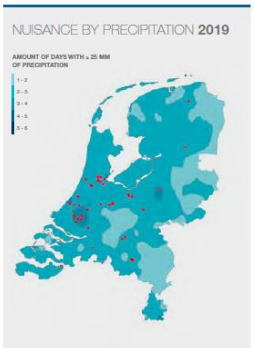
Flooding

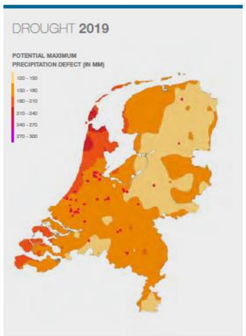
Due to the fact that more than half of the country is below sea level, the Netherlands has established a proper water defense along its coastal line. Even though the majority of our assets is located in the west of the country, the probability of flooding at most of our assets in 2050 is 'low', or even 'very low'.

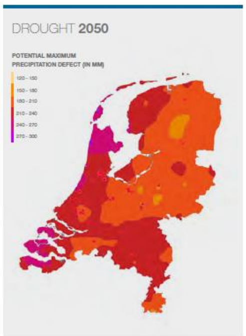
Drought

Drought is measured in the 'potential maximum precipitation deficit (in mm)'. In 2019 most of the Netherlands had a potential maximum precipitation deficit of 120-150 or 150-180 mm. In the northwest of the country it was 180-210 or even 210-240 mm. In 2050, these two higher ranges are expected to be the standard for most of the Netherlands, including almost all NSI property locations. There was only an average precipitation deficit of more than 300 mm in 1976 and 2018 The main impact of such a deficit is a drop in ground water level. Wooden piles, were used in the foundations of buildings built before 1960, may be vulnerable to rotting when they fall dry.

This risk is analysed for all NSI properties. Only four assets in the portfolio were built before 1960 and this risk might apply to two of them. This will be investigated further.







Heat

Heat is measured in the number of tropical days (≥ 30 ºC). In 2019, most of the Netherlands endured 0-3 or 3-6 tropical days. In 2050 the east, south and south-east of the country are expected to experience up to 12 extra tropical days. The NSI properties are mainly situated in the west and centre of the Netherlands, areas which are expected to experience up to nine extra tropical days.

NSI is already factoring the increase in the number of tropical days in renovation and development projects. The installation capacity can now handle an outside temperature of 35 degrees Celsius, where it used to be 28 degrees Celsius.

OTHER NON-FINANCIAL DISCLOSURE

Diversity

NSI recognises the benefits of diversity and is fully committed to providing equal opportunities and treatment when it comes to recruitment and selection, training and development, performance reviews and promotion. Our culture is based on the principles of mutual respect and non- discrimination irrespective of nationality, age, disability, gender, religion or sexual orientation.

The NSI employee gender breakdown was 34% female (2018: 33%) and 66% male (2018: 67%). The breakdown on the Management Board was 33% female to 67% male (identical to 2018), while there was an equal 50-50 split on the Supervisory Board (identical to 2018).

Human rights

NSI supports the principles laid down in the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises. We believe that human rights, as defined by the United Nations in its Universal Declaration of Human Rights, are a common standard that all employers should uphold, and we encourage our employees (as well as our contractors and suppliers) to respect these rights by committing to our Code of Conduct and business integrity principles.

No issues involving human rights were reported in 2019.

Anti-corruption

NSI and its employees must act with integrity, honesty and in compliance with the laws, as stipulated in the company's Code of Conduct. The Code of Conduct also defines how employees should act when presented with gifts and provides guidance on how to prevent conflicts of interest.

The Code of Conduct is available on the company website.
NSI's whistle-blower procedure allows employees to report suspected irregularities of various kinds within NSI without jeopardising their employment. There were no issues reported in 2019.