EVALUATION OF THE 2022 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 2021 and the regular shareholders' meetings held in 2022[2] are considered below.

Highlights

- As the strict measures against the spread of the coronavirus were gradually lifted ahead of the 2022 Dutch AGM season, we saw a return to in-person and hybrid AGMs. Only 15% of the Dutch listed companies still convened a virtual-only AGM. Executives, supervisory directors as well as shareholders were happy that after two years of digital discussions, they were able to meet in person and could conduct live conversations.
- Average voter turn-out at the AGMs reached new record levels at AEX and AMX companies.
- In total, 1,049 voting items were tabled at this year's AGMs, one of them was a shareholder resolution. Seven resolutions were withdrawn prior or at the AGM, while one was amended before it was put to the vote. 53 Board resolutions received significant shareholder dissent (over 20%). Ten board resolutions and the only shareholder resolution were voted down. One resolution could only be adopted with the help of a "friendly" Trust Office. Remuneration-related resolutions continue to represent the category of resolutions most contested: 39% of all controversial resolutions; similar to the level in 2021. Executive and supervisory director elections represent the second largest part of the controversial resolutions: 23% this year against 'only' 8% in 2021.
- Supervisory directors of Dutch listed companies do not take sufficient responsibility and actions to address the concerns of shareholders when the shareholders' meeting rejects a remuneration report. In order to increase supervisory directors' accountability, Eumedion believes that next steps should be taken. As from the 2023 AGM season onwards, Eumedion will issue alerts regarding the (reappointment of) supervisory directors who do not take sufficient action to address shareholders' concerns and will commission research into the options for improving shareholders' ability to hold companies to account on executive pay and performance. Eumedion will ask the researchers to take into account the experiences with an annual binding shareholder vote on executives' remuneration packages in France and Switzerland.

[1] Together, the Eumedion participants represent approximately 25% of the shares of the Dutch listed companies.
[2] This evaluation report covers the AGMs of 105 companies that have their registered office in The Netherlands and are listed at the Amsterdam stock exchange, Euronext Amsterdam. As Eumedion also organised dialogues with Unilever PLC and Shell PLC, also these companies are incorporated in this overview. The total sample is therefore 107 companies.

- 76% of all the largest Dutch listed companies have some form of climate action plan with at least one carbon reduction target. 42% of the companies have a net-zero emissions target for their scope 1, 2 and 3 and only one-third has subjected the emission reduction objectives to third-party verification. Moreover, material climate-related disclosures are difficult to find and in many cases also inadequate. Therefore, it is difficult for shareholders to assess the companies' climate risk and the reliability of the climate actions.
- Three of the four largest audit firms (PwC, EY and KPMG) have responded to Eumedion's call for an auditor's review of the climate-related disclosures. They have incorporated a standard section in the auditor's reports on the audit approach regarding climate-related risks. Eumedion calls on the audit firms to take a further step next year by challenging executives and supervisory directors on the impact of various climate-related scenarios on the company's strategy and business model and to report on the key findings and conclusions.
- While gender is still the most prevalent diversity topic, ethnicity is gaining more prominence, particularly within companies that have a large US exposure. Some companies have now incorporated disclosures on ethnic diversity of their total US workforce and leadership teams in the annual report and are in the process of setting targets on this diversity aspect.
- Almost all listed companies carry out a so-called human rights program, including supply chain screening and due diligence activities on e.g. equitable pay and working conditions. The companies also state that they are committed to respecting human rights and conducting business in accordance with the UN Guiding Principles on Business and Human Rights (UNGP) and that they adhere to the OECD Guidelines for Multinational Enterprises, of which human rights are an important element. However companies' disclosures on the effectiveness of human rights due diligence procedures need improvement.

1. A return to in-person AGMs

Shareholders had been banned from attending most annual meetings in person since the Netherlands implemented lockdown restrictions for combating the coronavirus in 2020. Almost all shareholders' meetings were held entirely virtual. In 2020 as well as in 2021 most Chairmen of Supervisory Boards told the – virtual – shareholder audience to return to physical meetings as soon as possible. As most covid restrictions were eased in the Netherlands just before the start of the 2022 proxy season, most listed companies 'walked the talk'. Although the Dutch legislator decided to extend the possibility to hold the general meeting without physical attendance, most listed companies invited their shareholders to attend annual meetings in person for the first time in more than two years. Just over half of the Dutch listed companies convened an in-person only meeting, while 28% opted for a hybrid meeting, allowing shareholders to attend in person or to participate remotely (see table 1).

Table 1: 2022 AGM formats of Dutch listed companies

AGM format	# companies
In-person only	57%
Hybrid meeting, with	28%
- *Live video webcast*	*97%*
- *Live, remote voting*	*59%*
- *Asking live, remote, oral questions*	*44%*
Virtual-only with	15%
- *Live video webcast*	*73%*
- *Live, remote voting*	*27%*
- *Asking live, remote, oral questions*	*13%*

We saw a wide divergence in practices regarding hybrid meetings this year. Some companies have allowed shareholders to listen into proceedings, or to ask questions to the executives and supervisory directors via videoconference, but votes could only be cast by those attending in person or by appointing the civil-law notary as proxy. In general, for such meetings, votes have been cast in advance by proxy. Some companies have gone a step further and provided an online voting facility to shareholders to enable votes to be cast in person and online. This allowed for shareholders to incorporate the traditional question and answer session of executives and supervisory directors into their voting decisions.

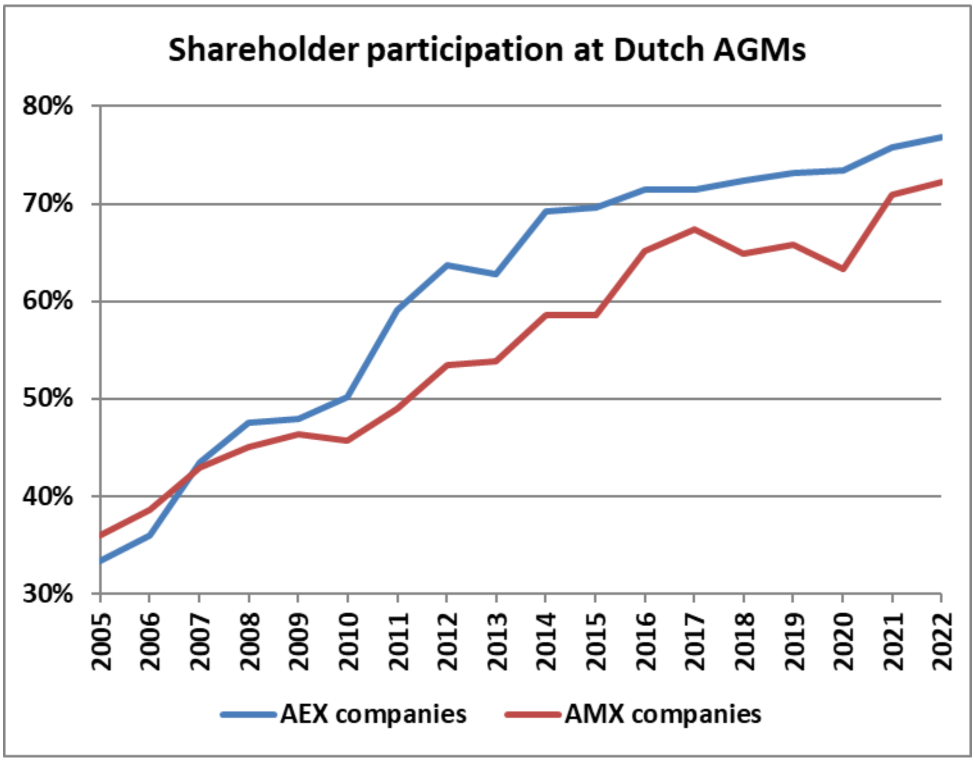
Eumedion and its members appreciated the move by a large majority of Dutch companies to return to in-person meetings or to organise hybrid meetings. Eumedion and its members still recognise the general meeting to be an important platform for engagement, connection and interaction between shareholders, executives, supervisory directors and the external auditor. A virtual-only meeting may shield executives and supervisory directors from difficult shareholder questions as they can better control the event by preparing answers to questions that have to be sent prior to the a meeting. ‘Spontaneous’ interaction is impossible. As such the possibility to really hold executives and supervisory directors to account for the execution of the company’s strategy and policy respectively the supervision thereof is diminished. It was in particular disappointing that Royal Philips and AkzoNobel organised this year a virtual-only general meeting, while shareholders showed much discomfort regarding the execution of the executive remuneration policy. Against this background it was also not surprising that more than 49% of the issued capital represented at the SBM Offshore shareholders’ meeting voted against the incorporation in the articles of association of the possibility to hold virtual-only shareholders’ meetings in the future. Eumedion and its members are supportive of changes to articles of association to allow virtual-only meetings where the company has provided an assurance that these meetings should only be used when in-person meetings cannot be held, for instance, during a pandemic, a natural disaster, a terroristic threat or war.

Two shareholders' meetings (ING Groep and Shell) were disturbed by climate activists. The ING Groep's shareholders' meeting was only interrupted for a couple of minutes. The Shell shareholders' meeting had to be suspended for 2 hours and 40 minutes in order to remove the activists.

2. Increasing trend shareholder turnout continues

Also this year, the average voter turnout at the AGMs increased. At the AGMs of both AEX and AMX companies new records were established. At the AGMs of AEX companies on average 76.9% of the total number of votes were cast; up from 75.8% in 2021. At the AGMs of the AMX companies the average number of votes cast increased from 70.9% in 2021 to 72.3% in 2022 (see figure 1).

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



We still see a wide divergence between institutional and retail investors' appetite to vote. The companies with a relatively large retail investor shareholding base, such as Pharming Group, Royal BAM Group, Wereldhave and Avantium, continue to have rather low voter turnouts at their shareholders' meetings: 10.8%, 33.7%, 40.4% and 50.3% respectively.

One company (NN Group) had to correct the voting results that were shown during its shareholders meeting, because the voting intentions of one shareholder were incorrectly processed in the voting system. The official voting results – published 14 days after the date of the shareholders meeting – therefore differ from the voting results communicated at the shareholders meeting. Some 13.5 million votes (almost 6.1% of the total number of votes cast at the shareholders meeting) were mistakenly counted as 'against votes', while the shareholder concerned intended to vote in favour. According to

NN Group, this was determined after the fact. As a result, the civil-law notary decided that these votes were not validly cast and therefore should not be counted in the official voting results. The corrections had no influence on whether the relevant proposals had been adopted or not: all the proposals submitted to the shareholders meeting could in fact count on large voting majorities. NN Group could not explain how it could have happened that the voting intentions of the shareholder in question had been incorrectly included in the voting system.

3. A higher number of contested board resolutions

This year, 1,049 voting items were tabled at the AGMs, one of them was a shareholder resolution. Seven resolutions were withdrawn prior or at the AGM, while one was amended before it was put to the vote. 53 Board resolutions received significant shareholder dissent (over 20%). Ten board resolutions and the only shareholder resolution were voted down. One resolution could only be adopted with the help of a "friendly" Trust Office.

3.1 Controversial shareholder proposal

As in recent years, the shareholder resolution was submitted by Follow This, a group of Shell shareholders that encourages the company to take leadership in the energy transition to a net-zero emission energy system. The shareholder resolution requested Shell to set and publish targets that are consistent with the goal of the Paris Climate Agreement to limit global warming to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature rise to 1.5°C. These quantitative targets should cover the short-, medium-, and long-term greenhouse gas (GHG) emissions of the company’s operations and the use of its energy products (Scope 1, 2 and 3). The resolution also requested the company to report on the strategy and underlying policies for reaching these targets and on the progress made, at least on an annual basis, at reasonable cost and omitting proprietary information.

The shareholder resolution was supported by 20.3% of the share capital present or represented at the Shell shareholders’ meeting. This was significantly lower than the 30.5% support for the similar resolution that was submitted for a vote at the 2021 shareholders’ meeting. The shareholder proponent explained that “investors have given in to Shell’s narrative that the crisis created by the war in Ukraine overrides the climate crisis”. The group of shareholders that supported the Follow This resolution was this year about the same size as the group of shareholders that voted against Shell’s progress report regarding its own energy transition strategy (20.1%). This indicates that a substantial group of Shell shareholders wants to see an acceleration of the pace of transition of Shell’s activities. After taking note of these votes, Shell’s CEO declared that there is still work to do and that he will consult shareholders to understand the votes and formally report back to shareholders within six months.

3.2 Controversial board proposals

The number of board proposals that appeared to be controversial (in the sense that the proposal received at least 20% dissent or was withdrawn or amended ahead of the AGM) was almost 25% higher than in 2021: 61 in 2022 versus 49 in 2021 (see appendix 1 for the complete overview of the 2022 controversial voting items). Remuneration-related resolutions continue to represent the category of resolutions most contested: 39% of all controversial resolutions; similar to the level in 2021. The remuneration-related resolutions are discussed in more detail in section 4 of this evaluation report.

Executive and supervisory director elections are an area of increased shareholder scrutiny and negative votes and currently represent the second largest part of the controversial resolutions: 23% against 'only' 8% in 2021. Previously, the resolutions related to the authorisation of the Executive Board to issue new shares and to disapply pre-emption rights formed the second largest part of the controversial resolutions (37% in 2021, against 20% in 2022). This development indicates on the one hand that an increasing number of institutional investors hold individual executive and supervisory directors personally accountable for the performance and/or governance structure (including the level of board diversity) of the company, for taking insufficient action on the remuneration policy or the quantum of remuneration packages when shareholders have shown discontent with respect to the remuneration policy and/or the remuneration report, for being insufficient independent and/or for being overboarded. It also indicates, on the other hand, that almost all Dutch listed companies have adapted the requested authorisation of share issuance and disapplication of pre-emption rights to new market practice and shareholder voting guidelines (i.e. a maximum size of 10%).

In total, ten board resolutions were rejected by the AGM; fewer than last year when eleven board resolutions were disapproved. However, one has to take into account that last year only five board resolutions were withdrawn or amended ahead of the AGM, while this year the number of proposals withdrawn or amended ahead of the AGM amounted to eight. We see in that respect a number of recidivists: the proposals to amend the executive remuneration policy of Flow Traders and Ctac were rejected for the third year in a row. The remuneration report of AkzoNobel was rejected for the second year in a row. The remuneration report of BE Semiconductor Industries (BESI) was rejected this year, after shareholders rejected the proposed new executive remuneration policy in both 2020 and 2021. The company refused to submit a new proposal for a shareholders' vote this year (see section 4.1 of this report).

4. Continued shareholders' scrutiny of remuneration policies and remuneration reports

4.1 Amendments to remuneration policy

25 companies (24% of total sample of Dutch listed companies) submitted a proposal to amend the executive remuneration policy, while 15 companies (14%) (also) submitted a proposal to amend the remuneration policy for their supervisory directors.

Flow Traders, Vastned Retail and Ctac were obliged to submit an amended executive remuneration policy for a vote at the 2022 shareholders' meeting as their 2021 shareholders' meeting rejected the proposed new policy for the second year in a row. This year, Vastned Retail was successful in winning enough shareholder support for its new proposal (98.1% positive votes). However, Flow Traders and Ctac saw their proposals rejected for the third time in a row. Although a majority of the votes cast at the Flow Traders' shareholders' meeting (57.3%) was in favour of the proposed new Flow Traders' executive remuneration policy, it failed to receive the required 75% approval under Dutch law. After the AGM, Flow Traders declared that the company retained its "firm belief" that its remuneration philosophy and approach is at the core of its success and creates true alignment with stakeholders. With such an attitude it remains to be seen whether the views of shareholders and the supervisory directors can be aligned next year. The proposed new Ctac executive (and Supervisory Board) remuneration policy was rejected by a clear majority (69.3%) of the votes cast. The company's supervisory directors and a number of major shareholder have a fundamental difference of opinion on the content of the remuneration policy. Whether these differences can be bridged in 2023 is uncertain. BESI saw its proposed new executive remuneration policy also rejected by the 2020 ánd 2021 shareholders meeting, but decided not to submit a new proposal for the 2022 AGM. The company deviates from the European Shareholder Rights Directive as this directive stipulates that "where the general meeting rejects the proposed remuneration policy, the company shall submit a revised policy to a vote at the following general meeting".[3] The company declared: "Given the proximity to the expiration date of the current remuneration policy and the material nature of prospective amendments, the Supervisory Board feels that the current policy should be maintained this year. Consequently, no amendments to the Remuneration Policy 2020-2023 will be proposed for approval at the 2022 AGM".

The 22 companies that 'voluntarily' initiated amendments to the executive remuneration policy had various reasons for such a proposal. Aligning the remuneration policy with an updated (sustainability) strategy, changes to the size and the scope of the company, feedback of stakeholders received in earlier years, the desire to clarify of some parts of the policy and the need for the company to remain attractive for top leaders now and in the future were the reasons most often mentioned. The analysis of the proposals show a clear trend to increase the weight of sustainability-related performance measures in the variable part of the remuneration package (e.g. at ASML, Ahold Delhaize and Heineken). This also reflects the development that sustainability performance and impact is becoming an integral part of the strategy of many listed companies and the fact that many companies not only set financial objectives, but also sustainability objectives. Carbon emissions reductions and gender diversity targets are increasingly incorporated in the executive incentive plans of in particular the larger and medium-sized listed companies. The war on talent on all parts of the labour market also impacts executive remuneration policy. In order to attract and retain top talent, some companies (a.o. ASML) were forced to increase the at-target and maximum levels of the incentive plans, to make a specific 'carve out' of the executive remuneration policy for an executive who is based outside Europe (a.o. ASM International) or to incorporate the possibility to award executives extraordinary shares when

[3] Article 9a, second paragraph, of the Shareholder Rights Directive.

they show extraordinary performance beyond and/or outside the targets set for the annual and long-term incentives (a.o. OCI).

When the remuneration committee held extensive engagements with shareholders (organisations), proxy firms and employee representatives prior to the submission of the final proposal and when the final proposal contained sufficient and convincing information on the rationale of the amendments, the proposals were adopted with the prerequisite majority of at least 75% of the votes. OCI and Acomo did not follow this path. Although OCI amended its proposal ahead of the shareholders' meeting following engagement with shareholders after the AGM agenda (including the remuneration resolution) was published, it was "too little and too late" to reach the required 75% approval threshold (25.3% dissent). This case also shows that a substantial number of minority of shareholders has fundamental problems with giving supervisory directors the possibility to grant an extraordinary share award that is not dependent on performance measures and targets specified beforehand. It also reflects a certain mistrust on the part of shareholders that the supervisory directors will use such a discretionary power in a prudent way. Also the supervisory directors of Acomo were not able to convince enough shareholders to support the proposed new policy. This was due to a lack of transparency regarding the performance measures and insufficient motivation regarding the proposed quantum of the remuneration packages in the proposed remuneration policy. The company decided to remove the resolution from the agenda three days ahead of the AGM date.

With the exception the Vopak proposal, all proposals to amend the remuneration policy for the supervisory directors were adopted by the shareholders' meetings. Vopak withdrew its proposal five days ahead of the AGM date. This company proposed that the remuneration of supervisory directors should automatically move along with the median of the chosen reference group. The shareholders' meeting would then no longer have to determine the resulting changes in the remuneration of supervisory directors. This proposal was criticised by various shareholders and shareholder organisations, including Eumedion. They doubted whether the proposal was in line with Vopak's Articles of Association and the legislation, which states that the shareholders' meeting "determines" the fixed remuneration of supervisory directors and is therefore not a result of external developments in a reference group.

4.2 Remuneration reports

2022 was the third year that shareholders of Dutch listed companies could cast an advisory vote on the remuneration report. By casting an advisory vote, shareholders can hold the supervisory directors accountable for the execution of the executive remuneration policy adopted by the shareholders' meeting in an earlier year. As there is an annual vote on the remuneration report, an analysis of year-on-year is possible. As is evident from table 2 we see an increase in both the number of reports that received more than 20% dissent and the number of reports that were rejected by the shareholders' meeting.

Table 2: number of contested remuneration reports of Dutch listed companies

	# remuneration reports that received > 20% dissent	# remuneration reports that were rejected
2020	10	2
2021	12	3
2022	16	5

There are a number of reasons why the dissent on remuneration reports increased. The first reason is that shareholders have increased expectations regarding the content of remuneration reports after two years of learning and experiencing for Dutch listed companies. Shareholders now expect comprehensive disclosures of the performance measures used for granting an annual bonus and for vesting performance shares and/or stock options, of the rationale for selecting these performance measures and of the bonus outcomes in comparison with the targets set. Shareholders find it increasingly important that companies can demonstrate alignment between executive pay and the company's long-term strategy and performance. Under-par disclosures explain, for example, the relatively high number of votes against the remuneration reports of companies such as TKH Group, Vopak and Heineken this year.

The second reason is that some companies were not able to satisfactorily justify pay practices, including the use of board discretion, in the context of operational problems that affected the company's performance and therefore contributed to a misalignment between executives' total pay levels and the company's performance. This can, for example, explain the very high number of shareholders' dissent (almost 80%) regarding the Philips remuneration report. For the second year in a row, the AkzoNobel supervisory directors used their discretionary power to lower the target of an important performance measure for the vesting of performance shares. As a result, the AkzoNobel remuneration report received a negative shareholders' advice for the second year in a row. Accell Group invoked the derogation clause in their remuneration policy to deviate from the outcomes of the performance measures and targets with regard to the vesting of performance shares. Non-vesting would not be in the interest of the company, according to the Accell Group supervisory directors. However, according to company law, a derogation clause can only be invoked if it serves the long-term interests and sustainability of the company as a whole or to assure its viability. It explains why the shareholders' meeting of Accell Group rejected the remuneration report.

The third reason is that an increasing number of shareholders 'use' the advisory vote on the remuneration report to show their discontent regarding the underlying remuneration policy. For example, many shareholders criticise the structure and (potential) outcomes (also in terms of quantum) of the proposed remuneration policy of BESI, Flow Traders and Ctac. This is not only reflected in their voting behaviour regarding the proposed policy but also in their voting behaviour regarding the remuneration report of these companies.

What is rather striking in the Netherlands is the fact that many companies took the negative shareholders' advice for granted and carried on with everyday business. They did, for example, not explain what actions they intended to take to consult shareholders in order to understand the reasons behind the voting outcome as is common in the United Kingdom. Only Philips issued a statement (8 days after the AGM date) in which the company indicated that it would further engage with shareholders and to review all areas of feedback and concern received, and address them "with urgency". Many companies that saw their remuneration reports rejected in 2020 and/or in 2021 only incorporated a few sentences in the next remuneration report how the voting outcome had been taken into account. In none of these cases it led to amendments to the underlying remuneration policies and/or a decision to reclaim variable remuneration. This is a very unfortunate outcome after three years of experience with the advisory vote on remuneration reports in the Netherlands.

Eumedion concludes that supervisory directors of Dutch listed companies do not take sufficient responsibility and actions to address the concerns of shareholders when the shareholders' meeting rejects a remuneration report. In order to improve supervisory directors' accountability, Eumedion believes that next steps should be taken. From the 2023 AGM season onwards, Eumedion will execute a more stringent policy with respect to the re-election of certain supervisory directors and/or the discharge of the supervisory directors. In the situation that the remuneration report has been rejected by the shareholders' meeting and no convincing and satisfactory action have been taken to address the concerns of shareholders regarding the remuneration structure and/or quantum, an alert will be issued regarding the re-election of the chair of the remuneration committee. When the chair is not up for re-election, an alert will be issued regarding the re-election of another member of the remuneration committee or the chair of the supervisory directors. When none of these supervisory directors are up for re-election that year, Eumedion will issue an alert regarding the discharge of the supervisory directors. This new policy will be incorporated in the 2023 version of the Eumedion Corporate Governance Manual. Besides this, Eumedion will commission research into the options to improve shareholders' ability to hold companies to account on executive pay and performance. Eumedion will ask the researchers to take into account the experiences with an annual binding shareholder vote on executive remuneration packages in France and Switzerland.

5. The mixed impact of the 2022 Eumedion Focus Letter

5.1 Net Zero Emissions Transition Plans and review of external auditor

In October 2021, Eumedion requested **all listed companies**:

a. to publish and discuss with shareholders a comprehensive strategy and action plan that are compatible with the transition to a net-zero emissions economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement. The strategy and action plan should contain short, medium and long-term science-based CO2 emission reduction targets, preferably validated by the Science Based Targets initiative (SBTi), that cover the company's own operations as well as the company customers' emissions from the use of the company's products and/or services (i.e. scope 1, 2 and 3);

b. where a comprehensive strategy and action plan has been provided, to consider holding an annual advisory shareholders' vote on the implementation of the strategy and action plan.

In a separate letter Eumedion requested **the six public interest entities' audit firms** to review the company's climate-related disclosures and to report in the auditor's opinion on the climate risk assessment and the auditor's response to the risks identified. Furthermore we requested the external auditors of companies that are expected to be materially impacted by climate change to assign the impact of climate risk and the energy transition as a key audit matter.

5.1.1 Companies' climate actions

We investigated the climate plans of the 62 largest companies: the Dutch companies that are incorporated in the AEX, AMX and AScX index of Euronext Amsterdam. 76% of all these companies have some form of climate action plan with at least one carbon reduction target. 42% of the companies have a net-zero emissions target for their scope 1, 2 and 3. Only seven Dutch companies have the ambition to being a carbon-neutral company (including scope 3) ahead of 2050. The emissions reduction targets that were set by twenty companies (32% of all companies) have been verified by SBTi, in accordance with the 1.5 °C scenario of the Intergovernmental Panel on Climate Change (IPCC). A rather large number of companies is currently in the process of requesting SBTi to validate their reduction targets. Consequently, for a majority of Dutch listed companies it is difficult for institutional investors to assess the reliability of the targets set and whether these are aligned with the IPCC 1.5°C scenario. It is also difficult to assess how challenging the targets are as companies use different base line years and various methodologies for calculating their scope 3 emissions. Moreover, some companies use an energy intensity reduction metric for their scope 3, while other companies have published absolute scope 3 emissions reduction targets.

Furthermore, only a very small number of companies describe the resilience of the company's strategy and business model, taking into consideration different climate-related scenarios, including the scenarios published by a.o. the International Energy Agency (IEA), in particular its Net Zero Emissions and the Announced Pledges Scenarios. Nor have many 'high impact companies', such as companies related to the oil and gas, automotive, aviation, shipping, construction, real estate and the financial sector, made transparent how these various scenarios would impact the assumptions, costs, estimates, and valuations in their annual accounts. Most companies also do not publicly inform stakeholders if and how the company's operating plans and budgets are aligned with the emissions reductions as targeted by the company.

Moreover, the climate-related disclosures of listed companies are now is now scattered around the annual report, on the website, in reports for regulators and in separate publications. Only a handful of companies, including Shell, Ahold Delhaize, Unilever, ING Groep, ASR Nederland, ABN AMRO Bank and Van Lanschot Kempen, have published a comprehensive report with climate-related information and actions, although even these reports vary in depth and scope.

To conclude, as material climate-related disclosures of Dutch listed companies are difficult to find and in many cases also inadequate, it remains difficult for shareholders to assess the companies' climate risk, which fundamentally compromises their ability to effectively manage and allocate the assets.

None of the listed companies that are incorporated in the Netherlands have submitted their climate strategy and action plan for an advisory vote at the 2022 shareholders' meeting. Only Van Lanschot Kempen placed its climate strategy and action plan as a discussion item on the AGM agenda. ING Groep and ABN AMRO Bank placed the overarching topic 'sustainability' as a separate discussion item on their AGM agendas. As a UK company, Shell submitted its energy transition progress report for an advisory vote at its shareholders' meeting.

Eumedion accepts the companies' argument that the board executes an integrated sustainability strategy and that therefore submitting one single topic of that strategy for a shareholders' vote would not fit with the company's sustainability approach. Eumedion therefore expects that the sustainability reports that large listed companies have to prepare in accordance with the European Corporate Sustainability Reporting Directive as from book-year 2024 onwards should be submitted for approval by the shareholders' meeting, just as the annual accounts are now submitted for approval by the general meeting. In our view, it would be inconsistent if the 'financial accountability' of directors is submitted for a binding AGM vote – via a vote on the annual accounts – and not the 'sustainability accountability' of directors – via a vote on the sustainability report. Companies would then deny the fact that sustainability information has become as important to shareholders as financial information.

5.1.2 Climate risk assessments by the external auditors

With respect to the auditors' involvement in reviewing climate-related disclosures and risks, it was encouraging to see that most large audit firms have picked up on this pro-actively. PwC, KPMG and EY incorporated in almost all auditor's reports a section on the audit response to climate-related risks. With a few exceptions, the Deloitte auditors did <u>not</u> incorporate a *standard* section on climate-related risks in their reports. It was rather disappointing that the mid-sized audit firms Mazars and BDO did not respond to our call for reviewing the climate-related disclosures of Dutch listed companies, although the impact of this non-action was limited: they have a joint market share of the Dutch listed companies of approximately 7%.

The sections of the PwC auditors were the most to-the-point, informative and company-specific of the aforementioned three audit firms. The sections in the auditor's reports of KPMG and EY were highly standardised and procedural. The sections in the PwC and EY reports ended with an observation and/or conclusion, while those of KPMG remained silent on any observation and/or conclusion (see figures 2, 3 and 4).

Figure 2: PwC remarks regarding climate risks (in: Aegon 2021 Annual Report)

We discussed with management their assessment on how the risk of climate change impacts the strategy, operations, and financial position of the Group. The Group committed to a net zero impact objective in respect to its general account investment portfolio and an operational greenhouse gas emission reduction. We discussed with management the planned actions which in their view should lead to realization of the commitments. The impact on the 2021 financial statements resulting from the risk of climate change on the insurance activities is considered limited, due to among others, the size and nature of the property and casualty portfolio of the group. As the investment portfolio is largely valued at market value, based on market observable inputs, the risk of climate change on this portfolio does also not lead to a material risk from a 2021 financial statements perspective. Hence, the risk of climate change on the Group does not warrant a key audit matter.

Figure 3: EY remarks regarding climate risks (in: Fugro 2021 Annual Report)

Our focus on climate risks and the energy transition

Climate objectives will be high on the public agenda in the next decades. Issues such as CO_2 reduction impact financial reporting, as these issues could entail risks for the business operation, the valuation of assets and provisions or the sustainability of the business model and access to financial markets for companies with a larger CO_2 footprint.

As part of our audit of the financial statements, we evaluated the extent to which climate-related risks and the possible effects of the energy transition are taken into account in estimates and significant assumptions as well as in the design of relevant internal control measures by Fugro. Furthermore, we read the report of the board of management and considered whether there is any material inconsistency between the non-financial information in the section environmental of the group performance chapter and in the section risk management of the governance chapter in the annual report and the financial statements.

In this respect, we note that Fugro has an ambition to reach net zero emissions by 2035. This ambition requires capital expenditures for the decarbonization of vessels and other equipment in the coming years. We describe the audit procedures performed with respect to forecasted cash-flows (which include planned capital expenditures) in our key audit matter "Estimates with respect to the valuation of goodwill and vessels".

Figure 4: KPMG regarding climate risks (in: Corbion 2021 Annual Report)

Audit response to climate related risks

The Board of Management is responsible for preparing the financial statements in accordance with the applicable financial reporting framework, including considering whether the implications from climate-related risks and commitments have been appropriately accounted for and disclosed.

The Board of Management has performed its analysis of the impact of climate-related risks on the company's business and operations going forward. This is disclosed in the 'Risk Management' chapter within the Annual Report and in the 'Annual Report TCFD 2021' section of the 'Sustainability statements'.

The evaluation of the effectiveness of management's strategy against internal or external goals set is not in scope of our audit of the financial statements. As part of our audit we consider potential effects of climate-related risks on the accounts and disclosures, including estimates and judgements in the current year's financial statements to determine whether the financial statements are free from material misstatements. This includes discussion of the Company's strategy in relation to climate change with the Board of Management and inspecting minutes and external communications for significant climate related commitments, strategies and plans made by the Board of Management.

In general the external auditors referred the readers of their report to the specific section or chapter in the annual report on how the company is addressing climate-related and environmental risks as part of the company's strategy. Furthermore, the external auditors clarified that they held discussions with the company to understand the company's process for identifying affected operations, including the governance and controls over this process, and the subsequent effect on the financial reporting of the company, and the strategy to respond to climate change risks as they evolve including the effect on the company's forecasts. The auditors' work involved challenging i) the completeness of the risks identified and considered in the company's climate risk assessment, ii) the extent to which climate-related and environmental risks and the effects of the energy transition were taken into account in accounting estimates and significant assumptions applied by the company, iii) the planned actions which in the board's opinion should lead to the realisation of the emissions reduction commitments and iv) the consistency between the annual accounts and the management report.

While the auditors acknowledge that the impact of climate change and companies' commitments to reach their emissions reduction targets are of significant importance for the companies and their stakeholders, the impact was generally not considered to be a key audit matter in the audit of 2021. Only the external auditor of Shell (Gary Donald of EY) identified the impact of climate change and the energy transition on the annual accounts as a key audit matter. This was not unsurprising given the characteristics of the company and its activities. The EY auditor stated: "The financial statement and audit risks related to climate change and the energy transition remain an area of audit focus and the risk is elevated compared to 2020. This due to the increased uncertainty surrounding the impact of climate change, and because climate change risks have a pervasive impact on many areas of accounting judgement and estimate and, therefore, on audit". The external auditor explains in detail his response to the risk and also shares his key observations communicated to the Shell Audit Committee. He stated (a.o.) that "the operating and capital expenditure estimates to deliver the emissions reductions [as targeted] are included in the operating plan [of Shell]". At the same time, the external auditor remarks that "Shell's oil and gas price assumptions are higher than the IEA Net Zero Emissions scenario; however, Shell's assumptions are more consistent with the IEA Announced Pledges Scenario (APS), being around 7% higher than the APS assumptions. The APS scenario assumes that all climate commitments made by governments around the world will be met in full and on time". These are important remarks from an independent expert and can be used by shareholders in their assessment of the credibility of the emissions reduction targets set by the company and their alignment with the operating plans.

A number of other EY auditors (of the annual accounts of Airbus, ABN AMRO Bank, Fugro and Heijmans) have integrated their audit procedures in response to the assessed climate risks and the potential impact of the energy transition in their audit approach to key audit matters related to specific assets valuations and/or impairment allowances (see figure 3 for the Fugro example). The question therefore arises why the external auditors of peer companies such as ING Groep (audited by a KPMG auditor), Royal BAM Group (audited by an EY auditor) and Aercap Holdings (audited by a KPMG auditor) did not integrate the audit response regarding climate risks in their audit approach to a key audit matter for these companies. It is also a bit surprising that so few external auditors mentioned the possible impact of various climate-related scenarios on assumptions, estimates, and valuations in the annual account of the company in question. Eumedion will discuss these points with the individual audit firms.

5.2 Transparency on the implementation of the diversity and inclusion policy within the total workforce

Eumedion believes that diversity (which in Eumedion's view is broader than gender alone) and inclusion are important at all levels of the company. The policy of companies should be aimed at ensuring that employees (regardless of matters such as gender, nationality and socio-cultural background) are given the same opportunities internally and that promotion to the top is made attractive. It is therefore important for institutional investors that companies report on the implementation of the diversity and inclusion policy within the total workforce. This enables institutional investors to assess whether companies are making progress in this area. Therefore we requested Dutch listed companies to report on the diversity and inclusion policy within the total workforce and the implementation and progress of that policy.

From the 2021 annual reports and our dialogues with Dutch listed companies we learn that while gender is still the most prevalent diversity topic, ethnicity is gaining more prominence, particularly within companies that have a large US exposure. Given the recent societal debate in the Netherlands on combating undesirable and inadmissible behaviour, almost all companies we spoke have intensified internal discussions and have taken measures to guarantee the safety and health at the workplace (in all its facets) and to stimulate a pleasant, safe, fair, inclusive and trusting workplace in which people from all backgrounds can be themselves and are encouraged and enabled to speak up and be heard, learn, make mistakes, and excel.

Regarding gender-diversity at executive board level we see that the number of female executives at Dutch AEX companies stagnated, while the number of female executives at Dutch AMX companies accelerated. The number of female supervisory directors increased at both AEX and AMX companies. It passed the level of 40% at AEX companies, while it is approaching that level at AMX companies. Four AEX and two AMX companies currently have a female Chair of the supervisory or non-executive board. To compare: in 2021 none of the AEX companies and only one AMX company had a female Chair. These increases at supervisory or non-executive board level can be explained by two developments. First, on 1 January 2022 new legislation entered into force. Since then all Dutch companies with a listing at Euronext Amsterdam must comply with a quota of having at least one-third of both women and men on supervisory and one-tier non-executive boards. New appointments which do not contribute to a gender-balanced supervisory or one-tier non-executive board are void. Second, an increasing number of institutional investors have tightened their voting policy and now require at least two or a third supervisory directors.

Just Eat Takeaway.com is the only Dutch AEX company that does not comply with the new quota legislation yet. It was one of the reasons why many institutional investors intended to vote against the re-election of the Chairman before he announced at the day of the shareholders' meeting that he would not be seeking re-election as Chairman. Basic-Fit, OCI and Aalberts are the three Dutch AMX companies that are not yet compliant with the new legislation. As none of the supervisory directors of Basic-Fit stood for re-election, a relatively large number of shareholders 'used' the voting item 'discharge of the Supervisory Board' to express their discontent with the low number of female supervisory directors: 8.3% of the share capital voted against this voting item.

Table 3: gender-diversity in boards of Dutch AEX companies (situation at 1 July each year)

	2009	2014	2018	2020	2021	2022
Female executives	5%	6%	9%	19%	19%	18%
Female supervisory directors	17%	26%	33%	37%	39%	42%

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

	2009	2014	2018	2020	2021	2022
Female executives	0%	8%	7%	13%	12%	18%
Female supervisory directors	9%	14%	22%	29%	34%	37%

The 'macro' developments at AEX and AMX companies are reflected in the number of the female executives and supervisory directors that were nominated for appointment to the boards. Since the publication of the 2021 AGM evaluation report, Dutch listed companies nominated 32 new executives and 85 supervisory directors. The number of female executive board nominations is still far lower than male nominations (25% versus 75%), but is gradually increasing, while the number of female supervisory director nominations still outpace the number of male supervisory director nominations (54% versus 46%), which leads to a female catching-up effect at 'macro level'.

With respect to ethnic diversity we see that the number of Dutch listed companies that have board members with a non-Western background[4] is rather low, in particular at AMX companies. The picture is more favourable for AEX-companies (table 5). This probably reflects the global character of these companies.

Table 5: ethnic diversity in boards of Dutch AEX and AMX companies (situation at 1 July 2022)

	AEX companies	AMX companies
Executives with non-Western background	13%	9%
Supervisory directors with non-Western background	14%	2.5%

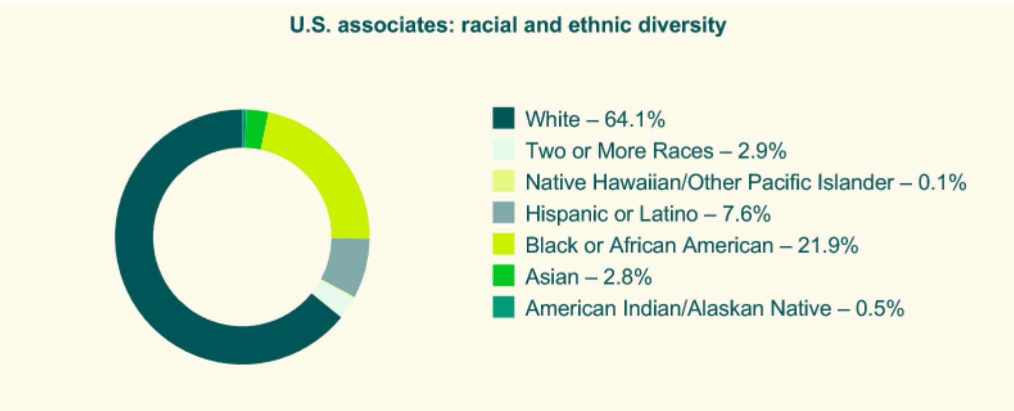
A few companies are now providing more insight into this diversity aspect at total workforce level. Because of legal constraints (privacy legislation), such disclosures are yet limited to the US workforce. See the examples of Wolters Kluwer and Ahold Delhaize below.

[4] We used the definition of Statistics Netherlands ('CBS'): persons whose background is one of the countries in Africa, Latin America and Asia (excluding Indonesia and Japan) or Turkey.

Figure 5: disclosures on ethnic diversity of the US workforce in the Wolters Kluwer and Ahold Delhaize 2021 annual reports

Diversity, equity, inclusion, and belonging	**2021**	**2020**	**2019**
Belonging score[1]	72	–	–
Gender ratio, % female			
Total workforce	46%	47%	47%
Executive Board	50%	50%	50%
Division CEOs	50%	50%	75%
Managers[2]	38%	38%	39%
Non-managers[3]	47%	48%	49%
Race/ethnicity ratio, % of U.S. workforce[4]			
Asian	12.3%	–	–
Black or African American	6.8%	–	–
Hispanic or Latino	5.9%	–	–
White	70.0%	–	–
Other race or ethnicity[5]	1.6%	–	–
Unknown or not provided	3.4%	–	–

1 Belonging score is based on a survey by an independent market-leading survey partner.
2 Managers are defined as employees having three or more direct reports.
3 Non-managers are defined as employees having less than three direct reports (0-1-2).
4 Races/ethnicities reported mirror those used for required federal reporting in the United States.
5 Other races/ethnicities include persons who identify as being of two or more races, Native American or Alaska Native, Native Hawaiian or Other Pacific Islander.



1 Aggregation of data from each U.S. brand. Racial/ethnic diversity is based on self-identification; data where identification is missing is not included in the analysis.

	2021	2020
100% Gender balanced		
Female at VP+ level	**27%**	27%
Female at director level	**34%**	34%
Female at manager level	**40%**	39%
Female below manager level	**54%**	54%
Female: total Ahold Delhaize	**53%**	54%
100% Reflective of markets		
Racially/ethnically underrepresented at VP+ level (U.S.)[1]	**17%**	10%
Racially/ethnically underrepresented at director level (U.S.)[1]	**19%**	12%
Racially/ethnically underrepresented at manager level (U.S.)[1]	**22%**	15%
Racially/ethnically underrepresented below manager level (U.S.)[1]	**37%**	34%
Associate perception of diverse teams that represent market[2]	**81%**	n/a
100% Inclusive		
Inclusive workplace index[2]	**79%**	79%

1 Figures are for associates in the U.S. only and exclude associates in Europe due to legal restrictions in Europe. The term "racially/ethnically underrepresented" refers to racial/ethnic groups that are underrepresented in the U.S. workforce generally (Black or African American, Asian, Native American or Alaska Native, Hispanic or Latino, Native Hawaiian or Other Pacific Islander, Two or More Races). Reported associate racial/ethnic categories in the U.S. are based on voluntary self-identification; associates with a missing racial/ethnic category are not included in the figures above. Each U.S. brand has adopted its own D&I strategy to reflect our D&I ambitions, and these figures represent an aggregation of the data of each brand.
2 Annual associate engagement survey results, see *Glossary* for definitions.

We also experience that an increasing number of multinationals set specific targets or ambitions to increase the cultural diversity of leadership teams in every region where the company operates. Eumedion is in favour of this development and encourages companies to disclose information on cultural diversity within leadership teams and the total workforce as much as possible as is allowed under national or regional legislation.

5.3 Transparency on human rights due diligence

All companies, wherever they operate, have an own responsibility to respect and protect human rights, as formulated in the UNGP. This means that they should avoid infringing on the human rights of others and should address adverse human rights impacts with which they are involved. Tackling adverse human rights impacts means that measures must be taken to prevent, limit and, where necessary, address these impacts. Eumedion experiences increasing scrutiny by stakeholders and the wider society on how companies address human rights issues that may arise from their business practices. Human-rights related risks are therefore on the rise for companies as well as for investors. Therefore we requested Dutch listed companies to implement robust procedures to identify, manage, and prevent adverse human rights impacts that are material for your business, to provide meaningful disclosures on these practices and to account for the effectiveness of the human rights management and mitigation strategy.

During the discussions with companies we focused on human rights in the supply chain, disclosures on reports of human rights violations and the decision-making within the boards on exiting/not exiting Russia and Belarus as a result of Russian's invasion of Ukraine.

Based on the companies' annual reports and our dialogues, almost all companies carry out a so-called human rights program, including supply chain screening and due dilligence activities on e.g. equitable pay and working conditions. The companies also state that they are committed to respecting human rights and conducting business in accordance with the UNGP and that they adhere to the OECD Guidelines for Multinational Enterprises, of which human rights are an important element. An increasing number of companies include in their human rights program management engagement with suppliers with specific risk indicators, education sessions, mutual sharing of best practices and human rights training and awareness sessions for their employees. They state that are on a journey to fully embed human rights and social performance within their operations to achieve 'no harm' and/or to be 'a force for good'.

In general, the annual reports contain details about various due diligence measures and procedures, but less on the *effectiveness* of the due diligence procedures. Companies are also relatively silent on the measures taken to verify compliance with the company's code of conduct by suppliers and on the steps taken to mitigate adverse human rights impacts. And – in general – companies have no detailed disclosures on how it is decided to continue or discontinue operations in countries or areas in conflict and/or where endemic human rights issues have been identified. For shareholders, it is mostly unclear to what extent the company's human rights policy is uniformly applied in various countries. The Royal Philips and Signify disclosures on human rights and supplier due diligence are considered to be best practices.

During the dialogues the companies updated Eumedion members on the implications of the Russia-Ukraine war. They all remarked that their first priority was the security of their colleagues, their families and the clients in these countries. Secondly, they explained their decisions to terminate operations in Russia and Belarus, to stop doing new business or to only continue supplying human-necessary products, such as food, medicines and medical products. Eumedion members requested to elaborate on the decisions made and how the various interests of stakeholders were taken into account and weighted. Thirdly, the companies updated Eumedion members of the impact of the 'secondary' effects of the war on the company, such as increasing (energy) prices, interest rates, supply chain issues and cybersecurity risks.

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

Company	Subject	Result
Shell	Setting and publishing targets that are aligned with the goal of the Paris Climate Agreement (shareholder resolution)	79.7% against **(resolution voted down)**
Philips	Remuneration report	79.4% against **(resolution voted down)**
Ctac	Remuneration report	78.9% against **(resolution voted down)**
BESI	Remuneration report	77.5% against **(resolution voted down)**
Ctac	Executive and Supervisory Board remuneration policy	69.3% against **(resolution voted down)**
Accell Group	Remuneration report	59.7% against **(resolution voted down)**
TKH Group	Remuneration report	57.6% against[5]
AkzoNobel	Remuneration report	57.3% against **(resolution voted down)**
Wereldhave	Authority to issue new shares	53.3% against **(resolution voted down)**
Wereldhave	Authority to repurchase shares	51.9% against **(resolution voted down)**
SBM Offshore	Amendment Articles of Association	49.4% against
NSI	Authority to issue new shares, second tranche of 10%	48.9% against
NSI	Disapplication of pre-emption rights second tranche of 10% share issuance	45.7% against
Corbion	Authority to issue new shares, second tranche of 10%	42.6% against
Flow Traders	Executive remuneration policy	42.6% against **(resolution voted down)** [6]
Flow Traders	Remuneration report	39.8% against
Eurocommercial Properties	Authority to issue new shares and disapplication of pre-emption rights	36.8% against
Flow Traders	Reappointment of supervisory director Jan van Kuijk	35.1% against
Eurocommercial Properties	Authority to repurchase shares	35.1% against
Acomo	Remuneration report	35.1% against
Avantium	Remuneration report	34.3% against
BESI	Reappointment of supervisory director Carlo Bozotti	31.8% against
Just Eat Takeaway.com	Reappointment of supervisory director Ron Teerlink	29.8% against
Just Eat Takeaway.com	Reappointment of supervisory director Jambu Palaniappan	29.5% against
Accell Group	Discharge Supervisory Board	29.1% against
Signify	Remuneration report	29.1% against
UMG	Remuneration report	29.0% against
Pharming	Authority to issue new shares, second tranche of 10%	28.9% against
Vopak	Remuneration report	28.8% against
BESI	Reappointment of supervisory director Niek Hoek	28.3% against
OCI	Disapplication of pre-emption rights	27.2% against

[5] Proposal was approved with 61.3% votes in favour due to the votes cast by the TKH Group Trust Office.
[6] Approval of this proposal required a 75% vote majority.

Basic-Fit	Remuneration report	26.8% against
Just Eat Takeaway.com	Reappointment of supervisory director Corinne Vigreux	26.3% against
Accell Group	Discharge Executive Board	26.3% against
TomTom	Disapplication of pre-emption rights second tranche of 10% share issuance	25.5% against
OCI	Remuneration policy	25.3% against **(resolution voted down)**[7]
TomTom	Authority to issue new shares, second tranche of 10%	23.8% against
IEX Group	Adoption Annual Accounts	23.6% against
IEX Group	Discharge Executive Board	23.6% against
IEX Group	Discharge Supervisory Board	23.6% against
IEX Group	Authority to issue new shares	23.6% against
IEX Group	Disapplication of pre-emption rights	23.6% against
Just Eat Takeaway.com	Discharge Supervisory Board	23.4% against
Pharming	Remuneration report	23.3% against
Just Eat Takeaway.com	Discharge Executive Board	22.8% against
Philips	Appointment of supervisory director Herna Verhagen	22.8% against
Just Eat Takeaway.com	Reappointment of CFO Brent Wissink	21.9% against
UMG	New Long-Term Incentive Plan (Ordinary Incentive Awards)	21.3% against
UMG	New Long-Term Incentive Plan (Extraordinary Incentive Awards)	21.2% against
UMG	Appointment of non-executive director Cyrille Bolloré	20.5% against
Heineken	Remuneration report	20.5% against
AkzoNobel	Reappointment supervisory director Nils Andersen	20.4% against
Shell	Energy Transition Progress Report	20.1% against
Boskalis	Remuneration report	20.1% against

Appendix 2: Proposals withdrawn or amended ahead of the AGM

AGM	**Proposal**
ASML	Appointment new external auditor
Just Eat Takeaway.com	Reappointment supervisory director Adriaan Nühn
Just Eat Takeaway.com	Reappointment COO Jörg Gerbig
Vopak	Supervisory Board remuneration policy
Accell Group	Retention bonuses Executive Board members
Acomo	Executive Board remuneration policy
Wereldhave	Disapplication of pre-emption rights
Arcona Property Fund	Reappointment supervisory director Herman Kloos

[7] Approval of this proposal required a 75% vote majority.