Next steps in embedding corporate responsibility
AGM Report 2016

Sustainability Performance of Dutch Stock Listed Companies

Next Steps in Embedding Corporate Responsibility
AGM Report 2016

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FOREWORD

Engagement is one of the strongest tools for investors to impact their investees. It provides a momentum that allows one to express and discuss its concerns and priorities, and in which trends and best practices can be shared, making it a key form of active ownership. Such constructive partnerships are valued highly by the corporations since they challenge their actions, behaviour and accountability. They stimulate them to act responsibly and with integrity. Yet it is important to initiate a dialogue that is relevant, context specific, fact-based and focused on long-term value creation. The VBDO strives to operate within these requirements. We have engaged for over 20 years and feedback shows our engagement is appreciated, because it brings long-term value and commitment.

This report contains the results of our engagement with 37 Dutch stock listed companies around their Annual General Meeting. Our focused approach enabled us to deepen our research and use even more in-depth criteria for the three priority themes we examine: natural capital, social themes including inclusion, paying a living wage and social value chain management, and - prolonged for the fourth year - responsible tax. The incredible progress on responsible tax shows the impact our engagement has had addressing this topic year after year, starting as one of the first organizations actively questioning responsible tax four years ago. This is a promising outlook for the results companies can achieve on the environmental and social themes.

This engagement process would not have been possible without our volunteers. I would like to express my sincere appreciation for all those who conducted research, drafted questions, visited the AGM's and wrote reports. This publication was made possible by the financial support of our members, which I would like to thank sincerely for their trust and support.

This report shows the impact investors can have on listed companies. I therefore call upon all institutional investors to step up their engagement efforts, thus encouraging and rewarding those companies that combine working towards a better world with increased returns.

Angelique Laskewitz,
Executive Director, VBDO

June 2016

MANAGEMENT SUMMARY

Conclusion

An increasing number of companies envision and grasp sustainable business opportunities. The average score on natural capital of all analysed companies is 57%; most of the companies have some environmental policy in place that addresses one or more natural capital topics (e.g. policies on water use) and have taken some action on these policies (e.g. by reducing their dependency on fresh water resources or by improving water treatment before releasing it back into the environment). However, an integral and focused approach towards natural capital is missing. An assessment of key risks and impacts both for the own operations and in the supply chain should be the starting point for this.

With regard to the assessed social criteria, there is significant room for improvement. Less than half of the companies have a policy on hiring people with a distance to the labour market and just four out of 37 companies have set targets on this topic. Only two out of 29 companies have made a commitment to paying a living wage. This is a concept with which companies need to become more familiar. Many companies conduct human rights due diligence and are aware of the social risks in their supply chain. Yet few companies have created a buyer code of conduct and no company has mapped their second tier suppliers.

We applaud the increase in companies with a responsible tax strategy which we address for the fourth year this year. The score has increased from 13% in 2013 to 90% in 2016. We do however encourage firms to start reporting their taxes on a country-by-country basis (showing which tax payments are made in which countries, related to the income generated in each specific country). The significant progress regarding responsible tax is encouraging for the further integration of the addressed environmental and social sustainability themes into the Dutch corporate sector.

Recommendations

Natural capital:

- Conduct a risk and impact assessment to investigate natural capital related risks for your own operations and the supply chain;
- Set measurable KPIs and targets to improve the performance on natural capital conservation;
- Start to assess the externalities of your operations by creating a environmental profit and loss account (product or project related).

Social themes:

Inclusion

- Formulate a policy on inclusion with a focus on people at a distance to the labour market;
- Take steps and set targets to achieve a more inclusive workforce by, for example, providing training and job opportunities.

Living wage

- Define ‘living wage’ together with stakeholders, e.g. suppliers and NGOs;
- Assess if a living wage is paid in your own operations and in the supply chain;
- Formulate a policy and supplier code of conduct on living wage;
- Include and examine criteria on living wage in supplier due diligence.

Social value chain management

- Conduct a risk assessment in order to assess the key social risks in the supply chain;
- Work together with suppliers, NGOs, etc. to improve social conditions in the supply chain;
- Improve transparency and reporting on the process, status and progress of supplier audits;
- Develop a buyer code of conduct.

Responsible tax:

- Formulate a clear tax strategy, including tax principles, as part of your CSR strategy;
- Describe your tax risks and mitigating actions in detail;
- Report your corporate income taxes, revenues, profits, assets, and employees on a country by country basis (or as granular as possible without disclosing competitive information);
- Report on total tax contribution; including taxes such as VAT, wage taxes, insurance and social premiums taxes.

Results of selected priority themes

Natural capital:

57% The average score on natural capital of all analysed companies is 57%. Most of the companies have *some* environmental policy in place that addresses one or more natural capital topics and have taken *some* action on these policies. Fewer companies have clearly identified the impact and risks for their own operations and in their supply chain. 12 out of 37 companies have started to take into account their externalities, but no company has yet completely set up an environmental profit and loss account.

Social themes:

27% The average score on all social themes of all analysed companies is 27%. 17 out of 37 researched companies have a policy on inclusion, yet only four companies have set targets. Only two out of 29 companies have made a commitment to paying a living wage. The results on social value chain management are mixed. Many companies conduct human rights due diligence and are aware of the social risks in their supply chain. However, fewer companies (three out of 32) have created a buyer policy and none of the companies have mapped their second tier suppliers.

Responsible tax:

53% The average score on responsible tax of all analysed companies is 53%. 29 out of 37 analysed companies have a responsible tax policy in place to which they comply, going beyond national and international regulations. If exactly the same companies are compared to those of last years, this percentage increases to 90%, compared to 65% in 2015, 23% in 2014, and 13% in 2013.

Results by sector

55% **Financial sector**
55% collective score on all themes.

51% **Food, beverage and retail sector**
51% collective score on all themes.

43% **Industry sector**
43% collective score on all themes.

41% **Services sector**
41% collective score on all themes.

43% **Technology and electronics sector**
43% collective score on all themes.

Commitments

77 The 37 companies that were assessed made 77 commitments to VBDO to improve sustainability performance next year.

About this report

This report provides insight into the status quo of sustainability performance of the largest Dutch stock-listed companies, focusing on VBDO's priority themes. In total 37 companies were assessed, followed by engagement questions prior and during their Annual General Meeting (AGM).

About VBDO

Since 1995, the VBDO actively engages with the Board of Directors of publicly listed companies during AGMs with constructive, critical questions to improve the company's sustainability performance. The association does this with the financial support of its members, i.e. 70 institutional and over 550 private investors.

OVERALL COMPANY SCORES ON SELECTED THEMES

Figure 1.1: Overall company scores on selected themes (1).

OVERALL COMPANY SCORES ON SELECTED THEMES

Sector	Company	Listing	Commit-ments*	Score
Financial sector	ING	AEX	3	68%
	ABN Amro	AEX	2	66%
	Delta Lloyd	AMX	3	56%
	Aegon	AEX	0	48%
	Nationale Nederlanden	AEX	1	42%
Food, Beverage & Retail sector	Unilever	AEX	1	80%
	Ahold	AEX	0	59%
	Heineken	AEX	2	54%
	Sligro	AMX	0	53%
	Unibail-Rodamco**	AEX	1	43%
	Wereldhave	AMX	5	21%
Industry sector	BAM Group	AMX	1	68%
	DSM	AEX	2	65%
	AkzoNobel	AEX	1	57%
	Shell	AEX	0	48%
	Boskalis	AEX	3	46%
	Corbion	AMX	8	46%
	Heijmans	AScX	0	40%
	ArcelorMittal	AEX	5	40%
	Vopak	AEX	1	36%
	Aalberts Industries	AEX	0	21%
	OCI	AMX	3	8%
Services sector	KPN	AEX	2	71%
	PostNL	AMX	3	64%
	Randstad	AEX	2	59%
	Arcadis	AMX	2	50%
	RELX Group	AEX	1	46%
	SBM Offshore	AEX	2	42%
	Wolters Kluwer	AEX	8	42%
	USG People	AMX	0	32%
	Fugro	AMX	2	8%
	Altice	AEX	3	4%
Technology & Electronics sector	Philips	AEX	2	60%
	ASML	AEX	3	44%
	ASM International	AMX	3	40%
	TKH Group	AMX	1	40%
	Gemalto	AEX	1	30%

* these are explained on page 14
** only engaged in writing

Figure 1.1: Overall company scores on selected themes (2).

OVERALL COMPANY SCORES ON SELECTED THEMES		Environmental	Social			Governance
		NATURAL CAPITAL	INCLUSION	LIVING WAGE	SOCIAL VALUE CHAIN MANAGEMENT	RESPONSIBLE TAX
Sector	**Company**					
Financial sector	ING	75%	67%	0%	60%	88%
	ABN Amro	63%	67%	0%	80%	88%
	Delta Lloyd	63%	67%	0%	60%	63%
	Aegon	50%	33%	0%	60%	63%
	Nationale Nederlanden	63%	0%	0%	80%	38%
Food, Beverage & Retail sector	Unilever	88%	67%	67%	60%	88%
	Ahold	75%	100%	0%	60%	50%
	Heineken	63%	0%	0%	40%	88%
	Sligro	38%	67%	0%	0%	100%
	Unibail-Rodamco**	50%	67%	n/a	n/a	13%
	Wereldhave	38%	0%	n/a	n/a	25%
Industry sector	BAM Group	88%	67%	0%	20%	88%
	DSM	88%	0%	0%	60%	88%
	AkzoNobel	88%	0%	0%	60%	63%
	Shell	50%	0%	0%	60%	75%
	Boskalis	50%	0%	0%	40%	75%
	Corbion	63%	0%	0%	40%	63%
	Heijmans	75%	67%	n/a	0%	13%
	ArcelorMittal	75%	0%	0%	60%	25%
	Vopak	50%	0%	0%	20%	50%
	Aalberts Industries	25%	0%	0%	0%	38%
	OCI	13%	0%	0%	0%	13%
Services sector	KPN	88%	67%	n/a	60%	63%
	PostNL	75%	67%	n/a	n/a	50%
	Randstad	63%	100%	33%	60%	50%
	Arcadis	63%	0%	0%	40%	75%
	RELX Group	75%	33%	n/a	n/a	63%
	SBM Offshore	63%	0%	0%	40%	50%
	Wolters Kluwer	63%	0%	n/a	n/a	63%
	USG People	38%	100%	0%	40%	13%
	Fugro	13%	0%	0%	0%	13%
	Altice	0%	0%	n/a	0%	13%
Technology & Electronics sector	Philips	63%	67%	0%	60%	75%
	ASML	50%	0%	0%	60%	63%
	ASM International	38%	0%	0%	60%	63%
	TKH Group	50%	100%	0%	0%	38%
	Gemalto	38%	0%	100%	20%	13%

**only engaged in writing
n/a = not applicable

TABLE OF CONTENT

CHAPTER I:
OVERALL RESULTS AGM SEASON 2016

Priority themes

- Natural capital
- Social themes: inclusion, living wage, social value chain management
- Responsible tax

For the purpose of this report, VBDO has analysed the performance of 37 Dutch stock listed companies during the AGM season 2016, on three priority themes; natural capital, social themes: inclusion, living wage and social value chain management, and responsible tax. This chapter elaborates on the content and overall results of the themes, as well as on commitments made to the VBDO to enhance sustainability performance. The total list of criteria and the scoring methodology can be found in appendix 2.

1.1. Results on priority themes

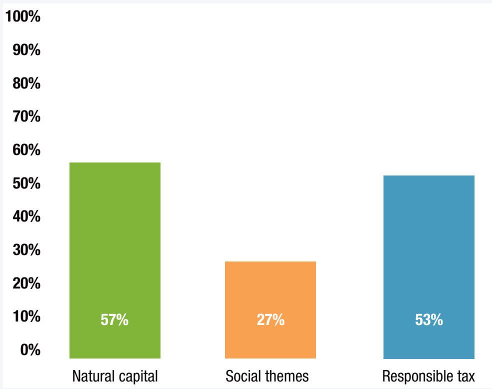


Figure 1.2: Average scores on priority themes

Natural capital is scoring relatively high on average (57%). This could be due to the fact that we have defined this theme broadly, entailing a range of environmental topics from biodiversity and ecosystem degradation to climate change and water scarcity, depending on the materiality for the sector. Therefore, most of the companies have *some* policy in place that addresses one or more natural capital topics. Nevertheless, all the researched companies could make significant progress on this theme by assessing, more specifically, which key risks and impacts regarding natural capital are applicable to their core activities and their value chain. This should be the starting point for their natural capital policies and actions.

For the social themes inclusion, living wage and social value chain management, the scores are disappointingly low, on average 27%. We have introduced new and progressive criteria on these themes that might cause the lower score, such as paying a living wage in the supply chain, targets on hiring people with a distance to the labour market, developing a buyer code of conduct for customers and mapping of second tier suppliers. The management and due diligence of complex supply chains regarding human rights therefore remain a pivotal point of attention for the next year.

More encouraging results are achieved regarding responsible tax, a topic that the VBDO has addressed for four consecutive years. The impact of addressing this theme for the fourth year is high; 29 out of 37 analysed companies (78%) have a responsible tax policy in place to which they comply, going beyond national and international regulations. If exactly the same companies are compared to those of last years, this percentage increases to 90%, compared to 13% in 2013 (see figure 1.3). Nevertheless, the number of companies that reports on a country-by-country basis as well as on its total tax rate is still lagging behind, providing room for improvement on this theme.

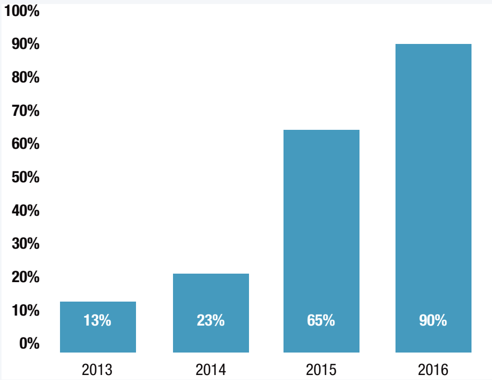


Figure 1.3: Companies that have a responsible tax policy from 2013-2016

1.1.1. Natural capital

Natural capital definition

The term 'natural capital' (NC) is increasingly being used by governments, key influencers of the private sector (e.g. regulators, investors, research institutions) and the private sector itself to describe the Earth's finite stock of natural assets. Natural capital includes renewable resources (e.g. plants, animals), and non-renewable resources (e.g. fossil fuels, metals, minerals). Biodiversity and ecosystem services are key parts of natural capital.[2] Biodiversity is vital for the functioning of ecosystems, such as forests, lakes and grasslands. Biodiverse ecosystems tend to be more stable systems that can deliver the services that businesses and society at large depend on. Examples of ecosystem services are the provisioning of oxygen, food, fresh water, raw materials; supporting water cycling and purification; and recreation in nature.

Impacts of companies on natural capital may be direct by a company's operations (e.g. emissions affect soil quality around the company's production area) or indirect through the use of natural resources produced by others (e.g. wood used by a furniture company that has been sources from a timber manufacturer in another country). For financial institutions and service-oriented companies it is evident that their reliance and their impact on natural capital mostly occurs indirectly. Developing a comprehensive natural capital approach starts with assessing the direct and indirect impacts on natural capital, including related risks. This results in a coherent set of environmental policies based on the most material aspects of natural capital for the company, rather than, for example, a collection of independent KPIs and targets on CO_2 emissions and waste management.

Key findings natural capital

This was the first year that the VBDO asked questions about natural capital. The average score on natural capital of all analysed companies is 57%; most of the companies have some environmental policy in place which addresses one or more natural capital topics (e.g. policies on water use) and have taken *some* action on these policies (e.g. by reducing their dependency on fresh water resources or by improving water treatment before releasing it back into the environment). However, an integral and focused approach towards natural capital is missing.

Identifying key risks and impacts on natural capital of the company's own operations and of the supply chain are key topics that require further attention. This should lead to establishing KPIs and SMART targets on natural capital. The most progress yet to be made is on taking externalities into account. Only 12 out of 37 analysed companies (32%) have made initial efforts to start measuring their externalities and none of the companies have completely established an Environmental Profit and Loss account (EP&L).

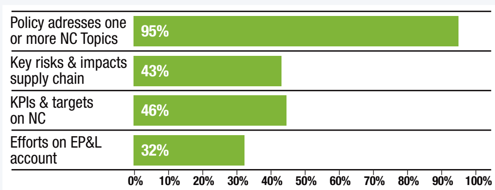


Figure 1.4: Key findings natural capital

[2] VBDO. (2015). *Natural Capital and Financial Institutions*. http://www.vbdo.nl/files/news/VBDOCREMNaturalCapitalGuide.pdf

1.1.2 Social themes: inclusion, living wage, social value chain management

Definition of social themes

Companies are expected to respect human rights, e.g. by offering a healthy work environment without forced labour, child labour, discrimination and underpayment, both in their own operations and in their value chain. The VBDO has addressed human rights issues for businesses for five years, adjusting focus topics each year. This year, the VBDO asked questions regarding three social sub-themes related to human rights and business: inclusion, living wage and social value chain management.

Inclusion definition

An 'inclusive' company in this research provides employment opportunities to job seekers who are at a distance to the labour market, e.g. due to disability, low education level, long-term unemployment or for other social or health reasons.[3] This goes beyond stimulating diversity. In 2015, the Dutch government introduced the Participation Act (*Participatiewet*) to promote the creation of job opportunities for people with disabilities and structurally unemployed people. Companies are expected to contribute to this Act by providing job opportunities and appropriate training to individuals with job accessibility problems.

Living wage definition

The Universal Declaration of Human Rights recognises the right of every worker to "just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity" (Article 23). A living wage is a wage that provides employees with the necessary income to maintain a decent standard of living based on geographical location and cost of living (local context). In many countries, wages earned during normal working hours are often too low to meet the basic needs – including food, housing, clothing, education and healthcare – of the workers and their families.[4] We specifically address the payment of living wages throughout the supply chain.

Social value chain management definition

Social value chain management encompasses the ways companies stimulate their customers and suppliers to respect human rights. First of all, it includes developing a buyer code of conduct which ensures that 'buyers' (e.g. business to business clients of companies) act with respect for human rights. Also, performing risk assessments and due diligence in the supply chain are important aspects (e.g. assessing if a supplier ensures decent working conditions for their employees and taking action if these conditions are not met). Mitigating actions include establishing partnerships, with for example NGOs to improve the social conditions in the supply chain. Lastly it encompasses mapping of second tier suppliers as a starting point for further insights and assessments of social performance.

Key findings social themes

The average score on all social themes of all analysed companies is 27%. This low score could be explained by the fact that new and challenging criteria were selected.

Key findings inclusion

Less than half of the analysed companies have a policy in place that focuses on job seekers who are at a distance to the labour market and only four out of the 37 analysed companies (11%) have set targets to improve inclusion in their company. With regulation in place on this topic, we would have expected higher scores. In chapter 3 of this report an example is given of a good practice, demonstrating the possibilities of formulating policy, taking action and setting targets on this topic.

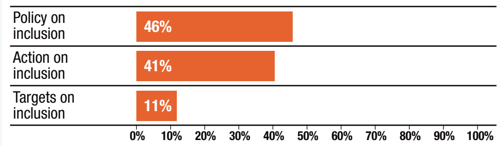


Figure 1.5: Key findings inclusion

[3] MVO Nederland (2015). *Inclusive economy* http://mvonederland.nl/dossier/inclusive-economy

[4] Berenschot. (2012). *Living wage in international supply chains: An inventory report.*

Key findings living wage

Very few companies make a reference to the payment of a living wage in their supplier code of conduct. Even fewer studied companies, two out of 29, have made a commitment to paying a living wage and only one company has made sure that all its key suppliers have signed their code of conduct which contains a reference to paying a living wage. The definition and application of a living wage should attain more attention in the market.

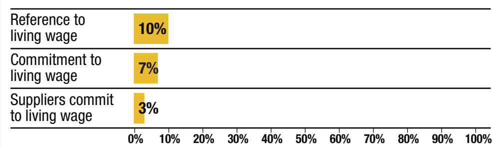


Figure 1.6: Key findings living wage[5]

Key findings social value chain management

The results on social value chain management are divergent. A small majority of the studied companies conduct human rights due diligence and have started partnerships with (e.g.) NGOs to improve the social conditions in the supply chain. The scores on the development of a buyer code of conduct and mapping second tier suppliers are less promising. Only three out of 32 studied companies (9%) have a buyer code of conduct in place. None of the analysed companies have mapped their supply chain to include second tier suppliers and beyond.

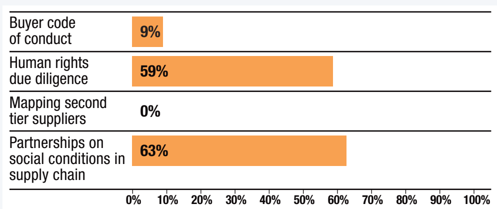


Figure 1.7: Key findings social value chain management[6]

1.1.3 Responsible tax

Responsible tax definition

Over the years, a number of multinationals have attempted to reduce tax costs by relocating some of their operations to low-tax countries or by using fiscal constructions, which avoid duties. Whereas this may yield direct cost reduction, it simultaneously undermines country's tax regimes. Such behaviour is harmful to a country's tax revenue, increases a company's exposure to reputational risk, and in general does not align with responsible governance and good business ethics. This type of "aggressive tax planning" is put on the agenda by organisations such as the Organisation for Economic Cooperation and Development (OECD) and the European Commission. Both are currently investigating the topic of public disclosure of information on tax on a country-by-country basis.[7] New legislation in the field of tax transparency should therefore be expected in the near future. The recent revelations published in the Panama Papers also contributed to the ongoing debate on good tax governance. The VBDO encourages companies to develop responsible tax practices. This also means that companies not only comply with the letter of the law, but also actively explain how they engage with the spirit of the law. For instance companies should ensure that profits and taxes are allocated where economic activity occurs.[8]

Key findings responsible tax

This is the fourth year the VBDO asked questions about responsible tax. We have added extra criteria to the theme, resulting in new and more detailed findings on the performance of companies and their approach to fulfilling tax duties. The average score on responsible tax of all analysed companies is 53%. 26 out of 37 researched companies (70%) consider tax as part of their CSR strategy suggesting that companies appear to acknowledge the connection between good tax governance and a company's corporate social responsibility (CSR). 24 out of 37 analysed companies (65%) affirm to apply to so-called arm's-length principle to ensure that profits and taxes are allocated where economic activity occurs. 20 out of

5 Companies without extensive, international supply chains were not scored for living wage (for a list of excluded companies see appendix 3).
6 Companies without extensive, international supply chains were not scored for social value chain management (for a list of excluded companies see appendix 3).
7 OECD (2015) *Implementing the BEPS package: Establishment of an inclusive framework.* http://www.oecd.org/ctp/beps-explanatory-statement-2015.pdf
8 VBDO (2015) *Tax transparency benchmark 2015.* http://www.vbdo.nl/files/news/VBDO_TaxTransparencyBenchmark2015.pdf

37 studied companies (57%) explicitly states they do not employ artificial structures in low tax jurisdiction (i.e. tax havens) that are used for tax avoidance. Yet, only three out of 37 companies (8%) reports their tax payments on a country-by-country basis. Two of these companies are banks for which country-by-country reporting is a mandatory requirement. Transparency on country-by-country reporting is lacking due to company concerns about revealing competition sensitive information and the absence of precedents. In addition, more progress could be made on reporting about other taxes than income tax, as shown in the good practice included in chapter 3 of this report. Further in-depth insights on companies' transparency on responsible tax policy and implementation will be presented in October 2016 in the VBDO Tax Transparency Benchmark.

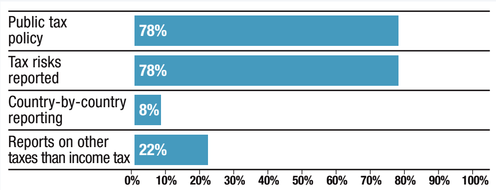


Figure 1.8: Key findings responsible tax

1.2 Commitments made to improve sustainability performance next year

During each AGM the VBDO asks companies to make a commitment to increase sustainability performance on specific themes and topics in the following year. During this years' AGM season, 77 commitments were made to the VBDO. This equals on average more than 2 commitments per analysed company.

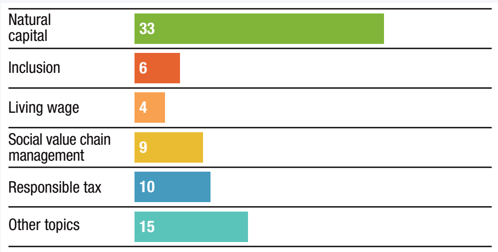


Figure 1.9: Number of commitments made to VBDO per theme

Most of the commitments are given regarding the natural capital theme. This could be due to the fact that we have defined this theme very broadly, entailing a range of environmental topics from climate change to water scarcity. For living wage, it is harder for companies to make commitments since this is perceived as a more intangible and indirect theme (e.g. often mainly of importance in the supply chain). The category 'other topics' entails, amongst others, issues as assurance, transparency, integrated reporting and overall sustainability performance improvement.

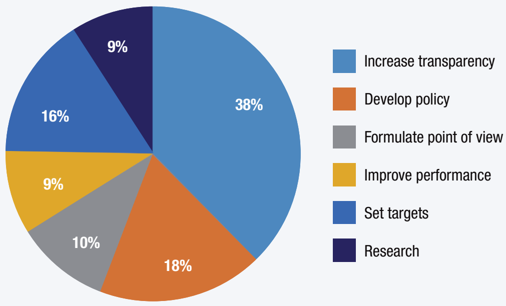


Figure 1.10: Types of commitments

Overall, most commitments are made on increasing transparency (by reporting) and developing a policy. Many companies committed to increase transparency by enhancing the reporting about natural capital topics or to set new, more specific targets. This is in line with our results that a majority of the companies have not yet set targets for this theme. Our research shows that on 'living wage', which is a new theme in the market, most companies commit to formulate a point of view.

CHAPTER II:
RESULTS PER SECTOR

Selected sectors for the purpose of this report

- Financial sector
- Food, beverage and retail sector
- Industry sector
- Services sector
- Technology and electronics sector

This chapter discusses sectoral performance; the overall performance on the selected themes is assessed per sector. Figure 2.1 shows the overall results per sector. A score of 100% would indicate that all companies within the sector have a maximum score on all criteria for all themes. The performance overview by company can be found in figure 1.1, the full scoring methodology in appendix 2 and specific sectoral criteria considerations in appendix 3.

Overall results per sector

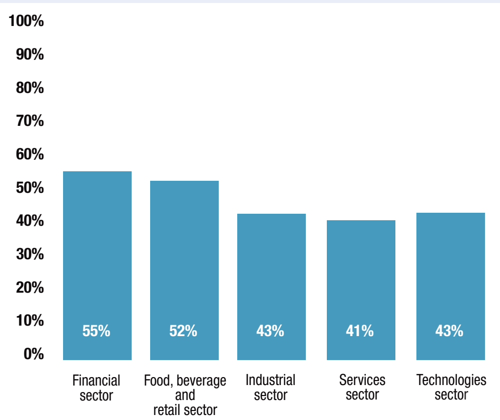
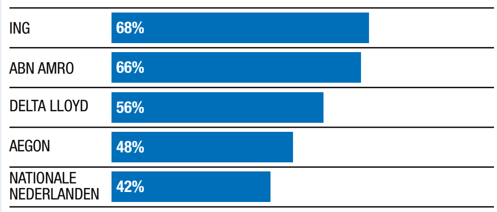


Figure 2.1: Overall results per sector

The scores of the different sectors are not very divergent. The financial sector and the food, beverage and retail sector lead in terms of collective theme scores, closely followed by the technology and electronics sectors. All sectors have achieved a comparable score on natural capital. This could be explained by the fact that the natural capital theme entails a wide range of environmental topics. Also, the criteria are adjusted to match the core activities of each sector. The scores on the social themes are more differentiated. Noticeably, the performance on these themes for the companies in the industries sector is disappointing. Particularly because inclusion, living wage and social value chain management can be considered highly relevant for this sector. Their complex supply chains continue to be a pivotal challenge. The different sectors score comparable on the theme responsible tax. Only the companies which are in the services sector performs slightly lower than the other sectors. The services sector also has the lowest performance on all themes together, this could be explained by the limited perceived relevance of the themes due to the nature of the sector (e.g. service providers have a less tangible supply chain).

2.1 Financial sector



Material sustainability themes:

- Natural capital
  - Biodiversity and ecosystems
  - Climate change
  - Carbon Bubble / stranded assets
- Social themes
  - Human rights
- Tax transparency
- Other
  - Sustainable Development Goals (SDGs)
  - Circular economy
  - Exclusion criteria on fossil fuels
  - Transparent financial product information
  - Financial education

The incentives to improve and implement environmental, social and governance (ESG) investment policies are encouraging general developments in the financial sector. These include commitments of companies to promote human rights and mitigate climate change. Yet, transparency on the impact of the applied ESG criteria on a company's investing portfolio, remains rather limited, making it troublesome to grasp the outcomes of the companies' shared focus on the aforementioned two themes. The financial sector encompasses banks and insurance companies that have relatively homogenous business activities, which has caused the performance of these companies on VBDO's criteria to not significantly deviate from each other.

Key findings on natural capital

All companies in the financial sector refer in their ESG policies to mitigating or reducing 'potential environmental damage'. However, the VBDO noted that the financial sector struggles to clarify (1) how they embed natural capital into ESG criteria and assessments and to what extent this impacts the decision-making process, and (2) how, and on what scale, the investments make positive contributions to the conservation of natural capital. Furthermore, transparency and reporting on the impact of the financial sector on natural capital requires further improvements. This is illustrated by the fact that only ING is transparant about the assessment of key risks and impacts with regard to the value chain. Only ABN Amro is actively looking into improving its reporting on environmental impact with its recently published results of a pilot study on EP&L accounting.

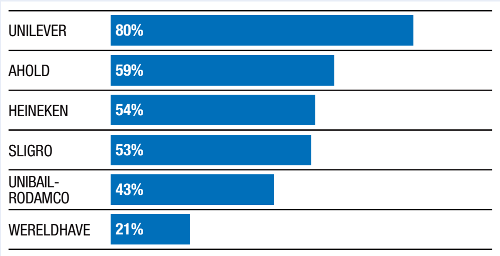
Key findings on inclusion, living wage and social value chain management

Five out of six companies execute human rights due diligence. The approach to safeguarding human rights in the value chain and among own business activities is commonly perceived as issues relating to risk management. It is generally applied as an exclusion criterion, rather than a value driver. Also, financial companies engage with their clients and investees and provide support in cases of non-compliancy. Yet, providing even more transparency and improved reporting on human rights is desirable. We encourage other financial companies to follow the best practice of ABN Amro. ABN Amro uses the United Nations Guiding Principles (UNGP) Reporting Framework to report on its performance concerning human rights, creating more transparency and insight into the applicability of this topic. In addition, five out of six companies have a policy in place that stimulates an inclusive workforce. However, none of the companies has set set concrete targets to measure inclusion ambitions. Surprisingly the topic 'living wage' has not been embraced by any of the financial companies yet.

Key findings on responsible tax

All financial companies within the scope of VBDO's AGM research have published responsible tax principles and/or a responsible tax policy. Some companies are more progressive than others, because the level of adequacy, comprehensiveness and details differs among the policies. Country-by-country reporting is mandatory for banks. This explains why this sector scores on this topic. Yet, just two out of five companies report about tax risks and only Delta Lloyd reports on other taxes than income tax.

2.2 Food, beverage and retail sector



Material sustainability themes:

- Natural capital
  - Land degradation
  - Efficiency of raw materials
  - Biodiversity
  - Water/energy use and renewable energy
  - Organic products
- Social themes
  - Living wage in own operations and the supply chain
  - Remunerations of top compared to lower employees
  - Safe working conditions
  - Human rights due diligence
  - Remediation and grievance mechanisms
  - Training/capacity building on social topics (also in the supply chain)
- Responsible tax
- Other
  - Consumer demand and access to markets

The food, beverage and retail companies show a clear awareness of sustainability topics. All companies questioned by the VBDO this year actively addressed sustainability both during the AGM as well as in their annual reports. Despite a wide acceptance of several sustainability themes, there appears to be little standardised reporting on them as many companies in the sector use their own measurement indicators and auditing practices. The sector could greatly benefit from a more standardized and comparable measurement. Considerable differences in performance with regard to the three VBDO priority themes are evident. Overall, we would expect the sector to have achieved higher scores on social performance, especially given the relevancy of this topic in their international supply chains.

Key findings on natural capital

All companies in the food, beverage and retail sector recognize natural capital related sustainability issues and have policies that refer to them. The sector focuses on energy and water use reduction in its own operations with regards natural capital. Also waste reduction is a common focus, although some companies are far more innovative than others. Biodiversity is considered a relevant topic by only a few companies. However, the sector can still make considerable progress in addressing these issues. Just two out of six analysed companies have assessed key risks and impacts for their supply chain. Some first steps are taken to assess water and energy impacts in the supply chain. Three out of six studied companies have set quantified targets on the topics mentioned above. The level of ambition of these targets still varies significantly. Some visited companies were requested to conduct an Environmental Profit and Loss Account (EP&L), but only Unilever has shown efforts towards creating such an account. The sector shows a preference for mapping the negative impacts on a few selected indicators only.

Key findings on inclusion, living wage and social value chain management

Four out of six companies in the food, beverage and retail sector have a policy in place regarding inclusion, although only Ahold have set targets on this theme. The payment of a living wage is still considered too complex. It is hard to define what a living wage actually is, many companies use national wage rules instead, which cannot be considered a living wage in many regions. Only Unilever has made a reference to living wage in its supplier code of conduct.

Only half of the companies applies human rights due diligence.[9] Complexity in indirect effects hampers companies to consistently move beyond methods such as self-reported due diligence. Monitoring adherence to the social codes of conduct is the next step for many companies. Additionally, indirect effects are by many companies considered appropriately covered by using certified

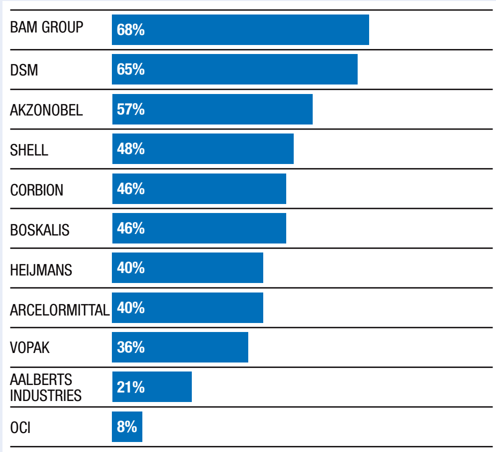
[9] The themes living wage and social value chain management were not scored for Wereldhave and Unibail-Rodamco considering the relatively low materiality for these companies.

products. Certification schemes are at times showing their imperfections in e.g. their due diligence or level of sustainable ambition. Companies are therefore advised to take an active stance. Currently, none of the companies has conducted a mapping of second tier suppliers and beyond to identify these risks.

Key findings on responsible tax

The sector shows an increasing awareness and recognition of the need for good tax governance. Annual and sustainability reports commonly address the companies' tax principles (four out of six companies). The VBDO found little evidence of country-by-country tax reporting: only Sligro reports this way. Therefore, it remains unclear what amount of taxes are being paid by the companies and in which countries.

2.3 Industries sector



Material sustainability themes:

- Natural capital
  - Use of scarce and finite natural resources (e.g. raw materials, fossil fuels)
  - Environmental profit and loss account
  - Greenhouse gas emissions
  - Climate change
- Social themes
  - Supply chain responsibility and management
  - Impact on local communities.
  - Monitoring systems and actions regarding non-compliant suppliers.
  - Living wage and excessive working hours (construction)
  - Labour rights
- Responsible tax
- Other
  - Circular economy
  - Bribery and corruption
  - Diversity

The core business activities of the companies in the industries sector differ significantly, with subsectors such as construction, oil and gas, and chemical companies. The low oil and gas prices have led to major cost cutting exercises within the industry. The oil and gas industry is also confronted with an increasing change in mind-set towards fossil fuels. The oil and gas companies need to develop new corporate strategies and active stakeholder management to embrace the transition to lower carbon economies. Shell sets an example by publishing several reports on energy transitions and portfolio resilience as a response to shareholder's resolutions. With regard to the subsector construction; the material issues for the construction sector are not different from the ones of previous years. Profitability, project risks, low margins and resulting volatility of shareholder value still dominate the agenda.

Key findings on natural capital

The industry sector increasingly reports on concepts of natural capital and how these are applied in running studies or projects. Identifying key risks and impacts on natural capital requires further attention, since six out of 11 analysed companies have done this for their own operations and seven out of 11 for their supply chain. Only four out of 11 studied companies have set KPIs and targets regarding natural capital.

This sector includes companies which are just starting to initiate KPIs, as well as companies which actively monitor energy efficiency across the entire supply chain e.g. AkzoNobel. Some progress can be seen in the (ambitions on) use of non-financial key performance indicators (KPIs) to support performance monitoring, remuneration and reporting. The comparability of reported data remains an issue also brought up by the industries, where agreed units of measurement and definitions for sustainability context could provide valuable solutions to promote moving forward (e.g. using the Natural Capital Protocol Project).

Topics often addressed related to natural capital are greenhouse gas emissions and resulting climate change. The 2015 Paris agreement to limit the average global temperature rise is widely applauded as a major breakthrough. One of the key issues mentioned with regard to climate change and CO_2 emission is the absence of a workable system on carbon pricing.

Coming up with integral Social and Environmental Profit and Loss statements is still far away, but some companies assert to be willing to experiment and to demonstrate to be at the forefront of developments.[10] Therefore, six out of 11 analysed companies scores on these efforts. Notably we see interesting developments in this regard at chemical companies AkzoNobel and DSM, and in building and construction BAM and Heijmans.[11]

Key findings on inclusion, living wage and social value chain management

The social performance of the industry sector is disappointingly low compared to other sectors. The challenges companies face regarding the management of complex supply chains are large. In addition, only BAM Group and Heijmans have taken action on inclusion. Hiring people with a distance to the labour market would be an excellent opportunity to fulfill the quest for employees in the broader industry sector. The living wage concept is appreciated, but we see no evidence of its application. The main reason given is that for highly capital intensive industry (chemical/oil and gas) and their first tier suppliers, where highly trained (and paid) employees are employed, the concept seems irrelevant. However, in the construction and biofuels sector and when addressing further supplier tiers, the subject is highly relevant. Major developments towards more flexible working relationships with independent sub-contractors, moreover, force a reconsideration of this argument.

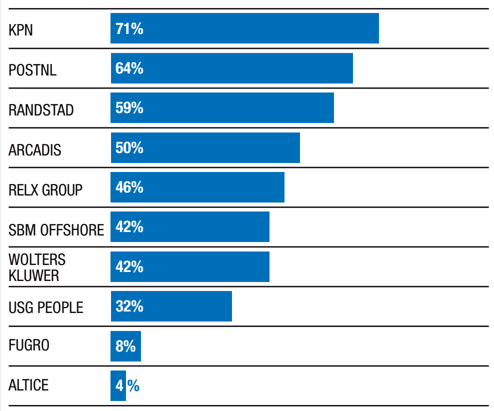
Key findings on responsible tax

Regarding responsible tax policy and reporting, eight out of 11 companies have responsible tax principles in place. Nevertheless, none of the companies reports on a country-by-country basis. Most companies seem to have a compliancy attitude towards responsible tax and are not willing to move beyond compliancy. It appears that the main driver for companies to start country-by-country reporting would be a mandatory requirement (e.g. enforced by legislation). However, some companies, such as DSM, appear to be taking steps towards country-by-country reporting. We encourage other companies to follow this example.

[10] See e.g. Natural Capital Coalition, http://www.naturalcapitalcoalition.org/natural-capital-protocol.html. AkzoNobel, DSM and Shell are members.

[11] MVO Nederland (2016) *Het loont om transparant te zijn.* http://mvonederland.nl/sites/default/files/media/Eindrapport%20Green%20Deal%20Transparantie%20Natuurlijk%20en%20Sociaal%20Kapitaal%20-%20NL.pdf

2.4 Services sector



Material sustainability themes:

- Natural Capital
  - Renewable energy and CO_2 neutrality
  - Paper consumption (RELX and Wolters Kluwer)
  - Biodiversity and ecosystem protection (Arcadis and Fugro)
  - Use of bio fuels/electric transport and linked CO_2-emmissions (PostNL)
  - Reusable and non-toxic material use (KPN and Altice)
- Social themes
  - Labour rights (independent contractors, migrants, season workers)
  - Second tier supply chain management (KPN)
  - Inclusion (Randstad and USG People)
- Responsible tax
- Other
  - Corruption
  - Privacy, data security and data protection
  - Accessibility of online data for people with disabilities
  - Intellectual Property Protection

The services sector is a very heterogeneous sector, ranging from companies that focus on human resources or consultancy, to companies that assist engineering projects or are active in the telecom and ICT market. Due to this, the material topics for each individual company are quite diverse, as shown above. Nevertheless, all companies should have a common concern for greenhouse gas emissions, labour rights, inclusion and tax transparency. Other material topics are corruption, being a responsible employer, subcontracting, data security and privacy.

Key findings on natural capital

The impact of the companies on natural capital within the services sector varies widely, yet most companies in the services sector do not prioritise minimisation of their negative impact on natural capital. This is mainly due to the relatively low ecological footprint these companies have. Considering the core business activities of the services sector, incentives that aim to minimise CO_2 emissions, energy- water- and paper use, and waste production are found material with regard to the protection and conservation of natural capital. This explains the relatively high scores of this sector: nine out of 10 analysed companies have a policy in place that refers to one of these topics. A frontrunner on monitoring these incentives is PostNL, which has identified and implemented more than 40 environmental indicators that measure the company's ecological footprint. Altice and Fugro do not have clear incentives to minimise their ecological footprint and therefore are encouraged to devote more effort into increasing their performance on natural capital. Identifying key risks and impacts to reduce the ecological footprint in the entire value chain is highly valuable, e.g. KPN and RELX aim to positively influence their customers to decrease their footprint. Yet, only five out of 10 studied companies in the services sector have assessed the key risks and impacts for their own operations and their value chain.

Evidently, companies such as Arcadis, Fugro and SBM Offshore, the impact on natural capital goes beyond minimising CO_2 emissions, energy- water- and paper use, and waste production. These companies have an impact on the biodiversity and ecosystem protection through the design and execution of their (engineering) projects.

Key findings on inclusion, living wage and social value chain management

The performance of the services companies concerning VBDO's social themes is rather low. Five out of 10 researched companies have a policy on inclusion in place, however, only two companies have set targets on inclusion. Since inclusion is a material theme for this sector, the performance is lower than expected. Living wage is a harder concept to grasp for this sector. Two out of 10 analysed companies make a reference to living wage in their supplier code of conduct. None of the companies has committed to applying a living wage.[12]

Only three out of seven studied companies in the services sector perform human rights due diligence.[13] Positive remarks can be made about the performance of KPN, which audits second and third tier suppliers. They use a risk assessment tool to determine the suppliers they should focus on. Also, Randstad sets an example by using the United Nations Guiding Principles (UNGP) Reporting Framework to report on the company's performance regarding human rights. The VBDO has noticed that the companies in the services sector struggle with how to develop and implement company-wide policies and standards on social sustainability topics into their operations; since in most cases they are not active in developing countries nor do they have an extensive international supply chain.

Key findings on responsible tax

Six out of 10 companies in the services sector consider responsible tax as part of their corporate responsibility, some however still regard tax as nothing more than a financial burden. The VBDO is pleased to see that eight out of 10 analysed companies have a responsible tax policy in place and have reported on their tax risks. The VBDO also noted that all analysed companies have taken action to prepare for the implementation of country-by-country reporting, although they are not willing to share this information with a wider public yet, as long as it is not a mandatory requirement.

2.5 Technology and electronics sector

PHILIPS	60%
ASML	44%
ASM INTERNATIONAL	40%
TKH GROUP	40%
GEMALTO	30%

Material sustainability themes:

- Natural capital
  - Climate change
  - Conflict minerals
  - Greenhouse gas emissions and energy efficiency
  - Materials scarcity
  - Pollution
  - Water scarcity
- Social supply chain:
  - Hidden workforce and transparency about global supply chains
  - Due diligence on human rights
- Responsible tax
- Other
  - Circular Economy
  - E-waste

The technology and electronics sector contains five companies which have comparable business activities and are affected by trends such as 3D printing, the smart home, the internet of things, digital health, and the use of robots. The main environmental impacts of this sector are caused by the materials used in production (e.g. resources, limited value through reuse and recycling, hazardous substances), as well as energy and water consumption through production and usage. We encourage other companies to follow the example of ASML and Philips in publishing absolute numbers on energy use, CO_2, water use and waste. ASM International has made significant improvements with regard to their reporting on sustainability and Gemalto and TKH Group are front-runners on respectively living wage and inclusion.

[12] Due to the core business activities of Altice, KPN, PostNL, RELX and Wolters Kluwer, the topic living wage is considered less material and therefore not scored.

[13] Due to the core business activities of PostNL, RELX and Wolters Kluwer, the topic social value chain management is considered less material and therefore not scored.

Key findings on natural capital

Natural capital is slowly becoming part of the business strategy. Overall, the industry could be more progressive when it comes to sustainable innovation and further diminishing impacts on natural capital in the supply chain. The sector has the lowest average score on natural capital in comparison with the other sectors. Some companies have identified resource scarcity and deterioration of ecosystems as relevant long-term risks. Yet for most companies in this sector these natural capital related risks are not perceived as fundamental operational risks. None of the companies reports on the identification of key risks and impacts for the supply chain, which is unsettling. Philips is the clear sector leader when it comes to action on natural capital preservation by involving suppliers as well as consumers in this process and its ambition and first steps towards publishing an EP&L.

Key findings on inclusion, living wage and social value chain management

The sector's performance on the VBDO's social themes is comparable to other sectors. Only Philips and TKH Group have a policy on inclusion, while only TKH Group has also set targets on inclusion. Gemalto is the only company in this sector that commits to paying a living wage. Four out of five studied companies perform human rights due diligence. The quality and scope of first tier supplier audits have been improved. Yet it is necessary that suppliers deeper in the supply chain are addressed and audited, since these are more prone to malpractices. Currently, none of the companies in this sector have mapped their second tier supply chain and beyond. Making positive impacts on working conditions outside Europe is a vital material theme that could be more recognised by this sector.

Key findings of the technologies sector on responsible tax

Based on the content of the tax policies, we may trust that all companies let tax 'follow' business activities instead of the other way around. The VBDO is pleased to see that ASM International published its first tax policy during 2015. However, there are still two out of five companies from this sector which do not formally report about their tax strategy. None of the companies reports on a country-by country basis and also none of the companies report on other taxes than income tax. Transparency on country-by-country reporting is lacking due to concerns about revealing competition sensitive information and the absence of precedents.

CHAPTER III: RECOMMENDATIONS

The business sector plays a pivotal role in pioneering sustainability initiatives as well as taking responsibility throughout the entire value chain. A number of critical themes are excellent business value drivers in itself, with economic, environmental and social sustainability as possible positive externality. Recommendations are given to the business community for the relevant priority themes as identified in the report: natural capital, inclusion, living wage, social value chain management and responsible tax, including examples of good practices.

3.1 Natural capital

We recommend the following regarding natural capital:

- Conduct a risk assessment to investigate whether there are any natural capital related risks for your own operations and your supply chain. The Natural Capital Protocol, that provides a uniform way to valuate natural capital impacts and dependencies, can help in conducting this analysis;[14]
- Assess the impacts on natural capital of your own operations and of the supply chain, specifically regarding the impact of regional activities on local ecosystems;
- Create clear KPIs and SMART targets based on the results of the impact and risk assessment to improve the performance on natural capital conservation;
- Start to assess the externalities of your operations by creating a (product or project related) environmental profit and loss account.

Heineken

Good practice assessing risks and impacts on natural capital: Heineken

Heineken has, together with WWF, conducted a water risk assessment across its total operational footprint (i.e. including joint ventures and barley-sourcing areas) in order to develop a Source Water Protection Plan for water distressed areas. After analysing its water use for all locations, Heineken has (1) implemented the Source Water Protection Plan at 100% of its water-distressed areas during 2015, (2) reduced its water consumption by 26% since 2008 and (3) expressed its commitment for 2020 to aim for significant water balancing by its production units in water-scarce and water-distressed areas.

AkzoNobel

Good practice calculating externalities: AkzoNobel

AkzoNobel has created a profit and loss account of its business department 'Pulp and Performance Chemicals' in Brazil, which is four-dimensional, measuring environmental, human, social and financial impact. The company uses the results of this study to take specific action to decrease the negative environmental impacts and build on the positive factors. For example, AkzoNobel is increasing its use of renewable resources in Brazil and is implementing continuous energy and material efficiency improvements in its own operations. Additional community programs have also been launched – with those offering more value to society being prioritized – while additional talent development and training programs for employees have been introduced. AkzoNobel has launched phase two of the project which includes widening the scope to sites in the US and Sweden that belong to the same business department.

[14] Natural Capital Coalition (2015) *Natural capital protocol: principles and framework.* http://www.naturalcapitalcoalition.org/js/plugins/filemanager/files/019347_NCC_Brochure_A5_Online.pdf

3.2 Inclusion

We recommend the following regarding inclusion:

- Formulate a policy on inclusion with a focus on people with a distance to the labour market (e.g. make reference to identified job opportunities within the organisation to support these people and go beyond a focus on diversity);
- Take steps to achieve a more inclusive workforce by, for example, providing training or job opportunities to people with a distance to the labour market;
- Formulate targets to improve inclusion for people with a distance to the labour market in the company.

TKH GROUP

Good practice on inclusion: TKH Group

TKH Group reports extensively on its hiring policy with special attention to people with a distance to the labour market. In order to improve the integration of hired persons into the company, TKH Group has adapted work spaces for people with a physical disability and has hired an external job coach to support young people with a disability. Moreover the company has created jobs, 33 in total, that contribute to the professional development of people who have been unemployed for a long time, together with the Dutch organisation UWV. TKH group monitors the amount of hired employees with a distance to the labour market to assess progress.

3.3 Living wage

We recommend the following regarding living wage:

- Define 'living wage' together with stakeholders, e.g. suppliers and NGOs;
- Assess if a living wage is paid in your own operations and in the supply chain;
- Formulate a policy and supplier code of conduct on living wage to ensure that both in your own operations and in the supply chain employees are paid a living wage in relation to their working hours;
- Include and examine criteria on living wage in supplier due diligence.

Unilever

Good practice on living wage analysis: Unilever

Unilever's Human Rights Report 2015 reports on the current status and progress of the company's effort to create a framework for fair compensation. Over the past years Unilever has collaborated with Fair Wage Network to analyse the compensation models of Unilever across 180 countries. The company is currently addressing the immediate concerns where its compensation models fell short of fair compensation. The next step is to set up independent benchmarks, identify gaps, address these gaps and identify a framework for fair compensation for their own workers. In the next three years Unilever plans to extend the fair wage analysis to its third party labour supplier and outsourced service providers, and continue working in partnership with others to address wage issues.

Good practice on paying a living wage in the supply chain: Gemalto

Gemalto has developed a CSR purchasing charter, which has been signed by all key suppliers, in which it has formulated a commitment on providing 'fair and reasonable wages, enough to ensure basic living needs without excessive overtime'. Gemalto realises that it is not highly exposed to violations concerning living wage (no use of low-skilled workers), yet some suppliers might have compliancy issues on providing fair and accurate compensation, including compensation for excessive overtime. This is why the company audits the performance of suppliers on living wage, and if malpractices are discovered, corrective actions are taken by Gemalto. Afterwards the supplier will be reaudited. In the coming years, the company has the ambition to increase audits among their smaller and low-risk suppliers.

Good practice on conducting audits in further tiers of the supply chain: KPN

KPN elaborates on its efforts to audit high risk suppliers going beyond the company's first tier of suppliers, in order to 'raise sustainability standards and working conditions in the supply chain'. KPN reports on how many second and third tier suppliers it has audited, expresses its ambition to engage with its entire supply chain, and targets to increase second tier supplier audits for 2016. For carrying this out, it is involved in the Joint Audit Cooperation (JAC) which employs standard audit procedures that include assessments on labour, health and safety, freedom, working hours, wages, environment, and ethics. Comparable approaches have been identified in the technology and electronics sector (through EICC) and the industries sector (via the Together for Sustainability initiative).

3.4 Social value chain management

We recommend the following regarding social value chain management:

- Conduct a risk assessment in order to assess the key social risks in the supply chain, for first as well as second tier suppliers;
- Perform human rights due diligence of suppliers and take corrective actions and/or provide training to suppliers to enhance social performance;
- Work together with suppliers, NGOs, etc. to improve social conditions in the supply chain;
  Improve transparency and reporting on the process, status and progress of supplier audits;
- Develop a buyer code of conduct in order to uphold human rights standards in the whole value chain (e.g. also towards clients).

3.5 Responsible tax

We recommend the following on responsible tax:

- Formulate a clear tax strategy, including tax principles, as part of your CSR strategy;
- Discuss your tax strategy with your stakeholders, including governments, tax authorities, civil society organisations, and investors;
- Describe your tax risks and mitigating actions in detail;
- Report your corporate income taxes, revenues, profits, assets, and employees on a country-by-country basis (or as granular as possible without disclosing competitive information);
- Report on total tax contribution; including taxes such as VAT, wage taxes, insurance and social premiums taxes.

delta lloyd

Good practice publishing total tax contribution: Delta Lloyd

Delta Lloyd provides a detailed and comprehensive overview of the company's total tax contribution in a clear and understandable manner. The company's Annual Review 2015 specifies Delta Lloyd's total tax contribution, including VAT, insurance premium taxes, payroll taxes on insurance- and banking products, and withholding tax on dividends. It reports the exact amount of these taxes by country. Delta Lloyd publishes figures on the performance of 2014 which allows the reader to compare the performance of last year. Furthermore, the company elaborates on new taxes that were introduced during 2015.

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APPENDIX 1:
VBDO'S ENGAGEMENT PROCESS DURING AGM SEASON 2016

In order to improve overall corporate sustainability performance, active company engagement during and around AGMs has been one of VBDO's core activities since the founding 21 years ago. For this reason, the VBDO pursues constructive dialogues on material sustainability themes with selected companies during AGMs. Engagement during AGMs is frequently preceded and/or followed-up by in-depth bilateral dialogues on specific sustainability policies. This can happen at either the request of the company, a third party, or on VBDO's own initiative, and will focus on sustainability issues where significant improvement might be realised. This year, the VBDO took the initiative for conducting pre-engagement meetings and calls to enhance the understanding of our questions, the quality of the answers and select the most material questions to ask at the AGM. In total, 20 of the 37 companies participated in pre-engagement meetings or calls with the VBDO.

All of VBDO's engagement activities have a constructive and positive-critical character. Thus, the VBDO attempts to create an open exchange of ideas and concepts about companies' sustainability policy in order to improve overall sustainability performance.

VBDO's engagement flow around AGM season 2016 is shown in figure A1.1.

START SEASON 2016

Selection of priority themes

Distribution of letter introducing priority themes to companies in scope of this research

In-depth research of company sustainability performance over reporting year 2016, based on annual/integrated and sustainability report, web search and expert consultation

Formulation of issues and questions for engagement during the AGM, sharing with company

Pre-AGM engagement call to explain and select AGM questions

Engagement with the company's Board of Directors during AGM

Reporting of results and assessment evaluation

Engagement with selected companies

START SEASON 2017

Figure A1.1: VBDO's engagement flow around AGM season 2016.

Priority sustainability themes

Priority themes for AGM season 2016

- Natural capital
- Social themes: inclusion, living wage and social value chain management
- Responsible tax

The three priority themes were selected on the basis of international sustainability trends, regulations and developments. These were identified through consultation sessions with global accountancy and consultancy firms KPMG, Deloitte, EY and PWC, as well as VBDO's own analysis and interaction with its institutional members. For impactful engagement purposes during the AGM, the most material issues per respective company were assessed.

Basis of company selection for engagement during AGM season 2015

For the purpose of VBDO's AGM season 2016, the sustainability performance of 37 companies was studied, which was followed by written engagement on the initial results. The full list of companies can be found in figure 1.1.

In 2016 the VBDO entered into direct engagement with the Board of Directors during the AGM of 36 publicly listed companies. In order to increase the quality and effectiveness of VBDO's engagements, this number was deliberately lower than in previous years (2013: 64, 2014: 51, 2015: 36). One company (Unibail-Rodamco) was engaged in writing.

Basis of company selection for engagement

- Presence in the AEX index;
- At least one peer from different indices (AMX, AScX), if no peer included in the AEX index; and/or
- Companies VBDO deemed necessary to enter into engagement with based on sustainability performance related issues over reporting year 2015.

Research and questions

The issues raised during the AGMs were based on in-depth research of company sustainability performance over reporting year 2015, based on annual/integrated and sustainability reports, web search and expert consultation. VBDO's analysis is further substantiated by data from global business intelligence on ESG-performance by RepRisk (www.reprisk.com). These analyses resulted in materialised questions for the respective companies.

Nature of questions to respective companies

- Questions addressing VBDO's priority themes;
- Questions addressing transparency issues;
- Questions addressing themes of particular materiality for a respective company;
- Questions regarding commitments made during previous AGM seasons;
- Questions arising from the content of the companies' presentation or questions of other shareholders during the AGM.

APPENDIX 2: SCORING METHODOLOGY

Each company was assessed on the criteria in table 1 below. For specific sectors we made additional considerations (see Appendix 3).

The total score per company has been calculated based on the following rules:

- Each of the three priority themes represents 33.3% of the total score;
- Every criterion within its own theme is equally weighted;
- The weight of social themes criteria differs per company, since not all companies have been scored on living wage and/or social value chain management. Therefore, the percentage on a company's social themes performance is calculated based on its total score on social themes divided by the possible maximum score on social themes.

Theme	Criterion	Score
Natural capital	**Strategy and Governance**	
	There is a general awareness of natural capital issues within the company and the company specifies why natural capital is important for its business	**1**
	Policy	
	The company has a policy on natural capital in place	**1**
	Management system	
	The company has identified its key risks and impacts with regard to natural capital for its own operations	**1**
	The company has identified its key risks and impacts with regard to natural capital in its supply chain	**1**
	Implementation	
	The company has taken mitigating actions with a positive impact on natural capital	**1**
	Outcomes	
	The company has developed Key Performance Indicators (KPIs) and SMART targets on natural capital	**1**
	The company is actively looking into calculating the externalities of its activities	**1**
	The company has established an EP&L account	**1**
Social theme: Inclusion	**Policy**	
	The company has developed a policy on inclusion that focuses, among others, on people at a distance from the labour market	**1**
	Implementation	
	The company has taken action to improve its performance on inclusion	**1**
	Outcomes	
	The company has set relevant targets on inclusion	**1**
Social theme: Living wage	**Policy**	
	The company has developed a Supplier Code of Conduct that makes reference to living wage	**1**
	Implementation	
	The company has made a formal commitment to apply living wage across its supply chain	**1**
	The company's key suppliers have signed the Supplier Code of Conduct which contains a reference to living wage	**1**

Table 1: Scoring methodology

Theme	Criterion	Score
Social theme:	**Policy**	
Social value chain management	The company has developed a Buyer Code of Conduct aiming to ensure that the company's customers and clients act with respect for human rights	**1**
	Management system	
	The company has identified its key risks with regard to social value chain management	**1**
	Implementation	
	The company has a clear human rights due diligence approach for its supply chain	**1**
	The company has conducted a mapping of its second tier suppliers and beyond	**1**
	Outcomes	
	The company has partnered with suppliers or other external stakeholders to improve the social conditions in its supply chain	**1**
Responsible tax	**Policy**	
	The company communicates its tax strategy publicly	**1**
	The company views tax as part of its corporate social responsibility	**1**
	The company states that it declares profits and pays taxes where economic activity occurs	**1**
	The company explicitly states that it does not use 'tax havens' for tax avoidance	**1**
	Management system	
	The company has identified and reports on tax risks	**1**
	Implementation	
	The company has discussed its tax strategy/policy with its stakeholders (including investors and civil society organisations)	**1**
	Outcomes	
	The company reports on corporate income tax on a country-by-country basis	**1**
	The company reports on taxes other than corporate income tax (e.g. VAT, withholding taxes, wage taxes etc.)	**1**

Table 1: Scoring methodology

APPENDIX 3:
CRITERIA CONSIDERATIONS PER SECTOR

In order to make the theme assessment relevant to the core business of different sectors, we have made additional criteria considerations per sector, which are depicted below. Furthermore, for every sector we have identified material sustainability themes which have been crafted based on the input received from our sector committees, consisting of sustainability professionals that are or have been active in this specific sector.

Financial sector

- **Natural Capital**
  - Focus on value chain rather than supply chain.
  - For the application of natural capital in their own operations, company's incentives that aim to minimise CO_2 emissions, energy-, water- and paper use, and waste production, are found sufficient to score on this criterion.
  - For the application of natural capital in their value chain the criterion 'the company has identified its key risks and impacts with regard to natural capital in its value chain' includes an assessment on the investment strategy and ESG criteria applied, containing a strong focus on reducing (potential) environmental damage.
- **Social Themes**
  - Focus on value chain rather than supply chain.
  - Criteria 'the company has developed a Buyer Code of Conduct' and 'the company has identified its key risks with regard to social supply chain management' include an assessment on the investment strategy and ESG criteria focused on protecting and promoting human rights.

Food, Beverage and Retail sector

- **Social Themes**
  - Unibail Rodamco and Wereldhave are not scored for the themes living wage and social value chain management, due to the low materiality for their core business activities.

Industries sector

- No additional considerations applied.

Services sector

- **Natural Capital**
  - Focus on value chain rather than supply chain.
  - Due to the core business activities of most services companies, the definition of natural capital has been adjusted according to the material risks of these companies. Therefore, company's incentives that aim to minimise CO2 emissions, energy- water- and paper use, and waste production, are found sufficient to score on natural capital.
- **Social Themes**
  - Altice, KPN, PostNL, RELX, and Wolters Kluwer are not scored on the theme living wage, due to the low materiality regarding their core business.
  - PostNL, RELX, and Wolters Kluwer are not scored on the theme social value chain management, due to the low materiality for their core business activities.

Technology and Electronics sector

- No additional considerations applied.

APPENDIX 4:
SUSTAINABLE VOTING POLICY 2016

The VBDO utilises a standardised directive for votes during AGMs and prepares its votes in line with the sustainable voting policy, which is showed in table 2. In 2016 we published pre-AGM voting advices for OCI, Philips, and Shell. In addition, we published 10 summaries of AGMs.

Resolution	Vote	Explanation
Annual accounts/ annual report	*For*	• If the company scores ≥ 100 points in the Transparency Benchmark.[15]
	Withhold	• If the company scores between 50 and 100 in the Transparency Benchmark.
	Against	• If the company scores ≤ 50 in the Transparency Benchmark
Declaration of dividend	*For*	Unless: see below.
	Against:	• If the company does invest insufficiently in improving its sustainability performance, based on VBDO's company assessment and engagement trajectory. For more information, contact VBDO.
Discharge of directors	*For*	Unless: see below.
	Against	• If there are current legal procedures against one or more directors in relation to the company's performance. • Serious social-, environmental- or governance breaches have been proven and the company has taken no action towards improvement.
Election of executive directors	*For*	• In case of a board of more than four people, the VBDO votes 'for' if in the proposed board composition ≥ 40% of new directors is female[16] • And there is proven sustainability knowledge in the board.
	Withhold	• In case of a board of more than four people, the VBDO withholds its vote if 20-40% is female after election of new directors. • Or if knowledge about sustainability is insufficient - even if ≥ 40% of the board is female.
	Against	• In case of a board of more than four people, the VBDO votes against if ≤ 20% is female after election of new directors • Or if 20-40% is female after election of new directors but knowledge about sustainability is insufficient.
Election of non-executive directors	*For*	Unless: see below.
	Against	• If after election of directors, knowledge about sustainability is insufficient in the board, and the board does not contain at least one financial expert. • Or if the board is insufficiently diverse for a representative and transparent nomination. • Or if the board contains more than five non-executive directors after election. • Or if the candidate does not meet the criteria of independence in the Corporate Governance Code[17] • Or if the candidate has seriously neglected their tasks and responsibilities in a previous role in any way.
Remuneration policy	*For*	• If >10% of the executives' bonus is determined by social, environmental and governance indicators • And at least one third of the company's goals are set for the long term (> 5 years).
	Withhold	• If > 0% and ≤ 10% of the executives' bonus is determined by social and environmental indicators • And at least one third of the company's goals are set on the long term (> 5 years).
	Against	• If the remuneration policy deviates from the Corporate Governance Code[18]. • Or if the recommendations deviate from the SCGOP regarding directors' remuneration[19]. • Or if 100% of the bonus is determined by solely financial indicators.
Other non-sustainability related	*No advice*	• No advice, if not sustainability-related.

Table 2: Sustainable voting policy

[15] http://transparantiebenchmark.nl
[16] Based on motion European parliament: http://www.europarl.europa.eu/news/en/pressroom/content/20120313IPR40566/html/Call-for-quotas-to-step-up-women%27s-participation-in-politics-and-business
[17] http://commissiecorporategovernance.nl/information-in-english
[18] http://commissiecorporategovernance.nl/information-in-english
[19] http://www.ecgi.org/codes/documents/scgop_handbook_2004_en.pdf

APPENDIX 5: ABOUT THE VBDO AND THIS REPORT

Since its initiation in 1995, the Dutch Association of Investors for Sustainable Development (VBDO) has been active to make the capital market more sustainable. A sustainable capital market considers not only financial criteria but also non-financial (e.g. environmental, social and governance) criteria. VBDO's vision is to increase sustainability awareness among companies as well as private and institutional investors.

About the VBDO

The VBDO works with parties on both the supply and demand side of the capital market to improve their sustainability performance. As such, the VBDO actively engages with the Board of Directors of publicly listed companies during Annual General Meetings (AGMs) with constructive, critical questions to improve the company's sustainability performance. The association does this with the support of its members, i.e. 70 institutional and over 550 private investors. VBDO's institutional members consist of all major Dutch banks, insurance companies, pension funds representatives, consultancy firms, including the big four consultancy and accountancy firms, non-governmental organisations and labour unions.

VBDO's core activities

1) Active engagement with the board of directors of publicly listed companies during Annual General Meetings (AGMs) with constructive, critical questions to improve the company's sustainability performance;
2) Initiation and identification of sustainability and responsible investment trends;
3) Research and reporting on sustainability and responsible investment themes, e.g. by benchmarking;
4) Organisation of multi-stakeholder dialogues towards improved sustainability and responsible investment performance;
5) Performing engagement activities on behalf of institutional investors on the sustainability performance of selected companies;
6) Organisation of sustainability and responsible investment related conferences.

About this report

The VBDO is encouraged by the results of last year's report "*Sustainability Performance of Dutch Stock Listed Companies*" (VBDO 2015) and on-going requests from the market to continue the constructive dialogue since last years' AGM season. It is imperative for the private sector to improve their performance on environment, social and governance (ESG) issues, especially given a number of recent developments amongst which the renewed focus on climate change due to the Paris agreement, the publication of the Sustainable Development Goals and the Panama Papers content going public.

In addition, sustainable investing is going mainstream, as indicated by amongst others the VBDO's research that basic ESG-integration has become mainstream with a large majority of Dutch pension funds applying at least some ESG criteria in the evaluation of equity investments.[20]

Goal of this report

- **To provide insight into the status quo of sustainability performance of the largest Dutch stock-listed companies, focused on three selected sustainability priority themes: natural capital, social themes and responsible tax.**

[20] VBDO (2015). *Benchmark Responsible Investment by Pension Funds in the Netherlands 2015.* http://www.vbdo.nl/files/report/VBDOResponsibleInvestmentDutchPensionFunds.pdf

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