In Balance 2019 - Survey of value creation and follow-up to the Non-Financial Information (Disclosure) Decree

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The Dutch Authority for the Financial Markets (AFM)

The AFM is committed to promoting fair and transparent financial markets.

As an independent conduct supervisor, we contribute to sustainable financial well-being in the Netherlands.

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1. Summary

Investors must be able to take well-informed decisions. In addition to financial information, non-financial information (hereinafter: NFI) that is relevant and of good quality has to be available. This allows investors to better understand the risks to which a company is exposed. One example is the risk associated with climate change. Various stakeholders in companies are calling for information on the risks and opportunities presented by climate change[1][2]. Another important element of non-financial information is to obtain insight into how companies create value. Value creation is therefore an important theme for listed companies. The AFM considers it important that companies report on the totality of the value that they generate. Value is expressed in other aspects that add value for society, not only in the financial figures. For instance, the influence on social circumstances or the reduction of harmful effects for the environment. According to the EU Guidelines on non-financial reporting (hereinafter: Guidelines), a company's business model should describe how the company generates and maintains value with its products or services over the long term[3].

Furthermore, under the Dutch Corporate Governance Code 2016 (hereinafter: the Code) listed companies must give central priority to long-term value creation and report on this commitment. Reporting on value creation has been a current topic in annual reporting for some considerable time. The concept of Integrated Reporting (hereinafter: IR) and Integrated Thinking is based on the creation of value.

The AFM supervises the annual reporting by the listed companies subject to its supervision. The AFM has conducted a survey of value creation in the annual reporting for 2018 by 39 listed companies subject to supervision that are included in the AEX and AMX indices. In this survey, the AFM established among other things whether and how companies report on value creation and how the company's vision, strategy and governance with respect to value creation is explained in its annual reporting. The survey showed that 85% of the companies surveyed provide insight into how value is created. 69% reported the form in which they create value and slightly under half (46%) report on why they create value. The practice is followed more widely by AEX companies than by AMX companies.

The AFM has also followed up its thematic review in 2018 of non-financial information in management reports for 2017. In its follow-up to the Non-Financial Information (Disclosure) Decree (hereinafter: NFID[4]), the AFM assessed the 2018 management reports of 33 companies. This involved companies that had not adequately complied with the NFID in 2017.

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[1] Eumedion expects listed companies to include a clear account of the impact of climate change on their earnings model and strategy and their own company's environmental footprint in their annual report on the 2019 financial year (source https://www.eumedion.nl/clientdata/215/media/clientimages/speerpuntenbrief-2020.pdf?v=191205094605).

[2] The Dutch Investors' Association (the VEB) also expects companies to provide a detailed statement of the risks and opportunities arising from climate change (source https://www.veb.net/media/5151/20191010-speerpuntenbrief.pdf).

[3] Article 4.1 (a) Guidelines for non-financial reporting.

[4] The statutory basis is Book 2, Section 391(5) of the Dutch Civil Code.

Companies are assigning greater priority to long-term value creation. This is shown in the annual reporting. The key areas in which the AFM sees further room for improvement on the basis of its value creation survey are described below.

Value creation

Reporting on value creation in the annual reporting could be more specific

The reporting on value creation by slightly more than half (51%) of the listed companies in the population is too generic. These companies use general descriptions, do not have a clear model for value creation and do not explain what this is, or only to a very limited extent. Their reporting also focuses mainly on the creation of financial value. The connection between the various types of capital is often not clearly explained in the management report. In the population as a whole, it is noted that companies do address the issue of value creation as a key item, but still devote little or no attention to any destruction of value, the other side of the same coin.

The distinction between time periods in reporting on value creation could be clearer

23% of the companies in the population make a distinction between time periods (short, medium or long term) in their value creation reporting. 33% of them report in particular specifically on value creation in the short term. Long-term value creation is reported in more general wordings. Few companies devote attention to value creation in the medium term in their annual reporting.

Companies could devote more attention to outcome and impact

In their value creation model, companies report on input, operations and output. They could devote more attention to outcome and impact in their value creation model. Only 28% of the companies in the population made a distinction between outcome and impact with respect to value creation in their annual reporting.

Companies could be more specific in their annual reporting with respect to the risks in relation to natural, manufactured and intellectual capital

Most of the companies provide good information on their financial results (87%) and risks (79%). More than half of them (59%) report specific results with respect to natural capital. A minority (13%) of the companies in the population then provide information on the risks. Intellectual and manufactured capital are mentioned in the value creation model, but the risks and results are not described further in the annual reporting.

Companies could devote greater attention to the link between long-term value creation and the company's governance

A majority of the listed companies devote sufficient attention in their annual reporting to the vision of their management with respect to long-term value creation (69%) and how this relates to their strategy (62%). A minority (31%) make a connection in their annual reports between their governance and how this combines with the company's long-term goals and strategy. The companies in the population that make a connection between governance and long-term objectives do so mainly with respect to their strategy in relation to sustainability. Making a connection with a broader set of non-financial long-term strategic objectives is a natural next step.

Slightly over half of the companies report on how the implementation of their remuneration policy contributes to long-term value creation

Just over half (51%) of the companies report on how the implementation of their remuneration policy contributes to long-term value creation. The companies that fail to do this in most cases have not explained why they are not observing the provisions of the Code. The relationship between remuneration and results from capitals is explained by 44% of the companies in the population.

Companies state that an assurance report by an auditor is useful

44% of the companies in the population had assurance procedures performed by the auditor on their reported non-financial information. These companies opted for a statutory auditor, and not another external party. Most of the separate statements attached to the non-financial information are provided on the basis of a limited degree of assurance.

Follow-up to NFID

The main findings from the follow-up to the NFID are:

Follow-up shows a varied picture of compliance with the NFID

Compliance with the NFID varies from one company to another. Around half of the 33 companies surveyed improved their management reports for 2018 in this respect compared to 2017. The improvement was most noticeable among companies that fell well short of compliance with the NFID in their 2017 management reports. The other half showed little or no improvement and continue to fall short of compliance. Our findings accordingly refer specifically to this group of companies.

Little disclosure of the effects of climate change, while this is needed and is becoming more urgent

The management reports of these companies include little disclosure with respect to the effects of climate change. Given the urgency of this issue, disclosures of the effects of climate change by and on the business operation are needed.

2. Introduction

As part of its statutory duty, the AFM supervises the annual reporting of listed companies, including the non-financial statement as part of the management report. The AFM also supervises compliance with the obligation of companies to include a statement in their management report regarding compliance with the Code, including the principle on value creation.

The importance of and attention devoted to non-financial information in reporting by listed (and other) companies is increasing, and is increasingly becoming common practice. This is partly due to the statutory obligation under the Decree on the disclosure of non-financial information. Encouraged also by international agreements such as the Paris Climate Agreement and the UN development goals, investors and other stakeholders are calling for greater transparency with respect to non-financial factors. The risks and opportunities presented by climate change are an urgent topic these days. NFI has moreover become more relevant, since a company's balance sheet still represents only a limited part of its assets or value.

Companies are required to report on value creation in their annual reporting under various regulation and frameworks[5] in relation to NFI. Under the Guidelines, a company's business model should describe how the company generates and maintains value with its products or services over the longer term, for example. IR is moreover based on reporting on value creation in the short, medium and long term. In the Netherlands, the Code states that listed companies should report on long-term value creation.

The AFM believes that the integration of relevant financial and non-financial information[6] in companies' annual reporting (IR, or integrated reporting) is important because companies can thus provide related information to investors and other stakeholders on matters such as their strategy, targets and results in relation to non-financial information. IR also contributes to obtaining an overall impression of a company and offers insight into a company's value creation with respect to its financial position, personnel, societal role and the environment.

The Code states that companies must consider their creation of value in the long term and that they must report on this. The Code stresses the importance of assigning central priority to long-term value creation as part of good corporate governance. In the Code, the Corporate Governance Monitoring Committee (hereinafter: the Monitoring Committee) states that long-term value creation by executive and supervisory directors requires them to act in a sustainable manner by making conscious choices regarding the sustainability of the strategy in the long term. For this, it is essential that the interests of stakeholders are given due consideration. Companies are expected to act with care and accept their responsibility for the environment in which they operate and on which they exert influence.

The Code further stresses that the term 'value' does not exclusively refer to profit or variables that can be expressed in monetary terms, but that it also concerns other facets, such as contributing to improving human rights and reducing harmful effects on the environment.

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[5] NFID, Guidelines, GRI and the <IR> framework of the IIRC, among others.

[6] In the sense of the integrated reporting of relevant financial and non-financial information in the annual reporting. We did not test whether the NFI reported fully or partially met the <IR> framework of the IIRC.

Sustainability thus involves more than the company and its financial and other results in the long term.

Relevant developments in the area of non-financial reporting in 2019

There were several significant developments in the area of non-financial reporting at national and international level in 2019 that confirm the importance of non-financial reporting. We briefly describe some of these developments below.

IOSCO statement

At the beginning of 2019, the International Organization of Securities Commissions (IOSCO) issued a statement calling on listed companies to be transparent regarding the potential and actual short- and long-term effects of ESG factors on their business.[7] The AFM was actively involved in the drafting of this statement.

Climate reporting in the EU Guidelines

The European Commission published new guidelines for climate reporting by companies in June 2019[8] as part of its sustainable finance action plan. These guidelines offer companies practical recommendations regarding how to improve their reporting of the climate impact of their operations and the impact of climate change on their business.

Alignment of international frameworks

In the course of 2019, the Corporate Reporting Dialogue initiative (involving among others IASB, IIRC, GRI, SASB and CDP) was announced in various publications as part of the 'Better Alignment' project[9]. The aim of the project is to achieve closer alignment between the various frameworks in the area of non-financial information and reporting.

Climate agreement for the financial sector

In July 2019, fifty banks, pension funds, insurers and asset managers signed the Dutch Climate Agreement[10]. These organisations have committed to reporting on the climate impact of their loans and investments with effect from 2020. In addition, by 2022 they will have action plans in place to contribute to reducing CO_2emissions. The aim of the Climate Agreement is to cost-effectively reduce greenhouse gas emissions by 49% from the level in 1990 by 2030.

[7] https://www.iosco.org/library/pubdocs/pdf/IOSCOPD619.pdf
[8] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52019XC0620(01)
[9] https://corporatereportingdialogue.com/publications/
[10] https://www.klimaatakkoord.nl/actueel/nieuws/2019/07/10/financiele-sector-ondertekent-klimaatakkoord

ESMA priorities for reporting on 2019

In its European Common Enforcement Priorities for 2019 Annual Reports[11], ESMA, the European capital markets supervisor, points to the importance of providing material, comprehensive, balanced and accessible information on non-financial factors to investors. ESMA calls on listed companies to devote attention to the materiality, comprehensiveness, balanced presentation and accessibility of the non-financial information they provide. ESMA moreover specifically urges companies to adequately disclose aspects relating to the environment and climate change, as well as relevant key performance indicators (hereinafter: KPIs), risks in their supply chains and the use of frameworks for the reporting of non-financial information. The AFM will include these ESMA priorities in its supervision of the 2019 reporting of listed companies.

Structure of the report

In order to obtain insight into how and the extent to which listed companies report on (long-term) value creation, the AFM has carried out a survey this year of the reporting on value creation in the annual reporting of AEX and AMX companies.

The AFM has also devoted attention to compliance with the NFID in the form of a follow-up to its review of 2018. For further details, see section 4.

The structure of this report is as follows. Section 3 lists the findings from the survey of the reporting of value creation by AEX and AMX companies. Section 4 deals with the findings from the follow-up review of compliance with the NFID. The aims, design and population of the survey of value creation reporting and the follow-up review of the NFID are stated in appendix 1. Appendix 2 contains a list of the companies participating in the value creation survey, and appendix 3 gives a list of abbreviations.

[11] https://www.esma.europa.eu/sites/default/files/library/esma32-63-791_esma_european_common_enforcement_priorities_2019.pdf

3. Room for improvement in the reporting on value creation by AEX and AMX companies

Reporting on value creation in annual reports is a recent phenomenon, and is still under development. Value creation is an abstract concept. For example, the Code does not give a definition of value creation and how companies should report on it. In practice, the reporting on value creation in the annual reports therefore varies from one company to another. As a result of this, and the demand from investors[12] for better reporting on long-term value creation, the AFM has carried out a survey of the reporting of long-term value creation by listed (AEX and AMX) companies in their 2018 annual reports. In this survey, the AFM established on the basis of a combination of the Code, the value creation background paper from the International Integrated Reporting Council, the guidelines of the Global Reporting Initiative and academic literature on value creation whether and how companies report on value creation and how they explain their vision, strategy and governance in the context of value creation in their annual reports. The AFM wishes to note that this did not involve a test of compliance with the Code by the companies in the population. This role is reserved for the Monitoring Committee. The AFM moreover did not review compliance with the Decree on the content of management reports (Besluit inhoud bestuursverslag). The primary objective of the survey was to obtain insight into reporting on value creation and to prompt companies to improve the quality of their reporting on this issue. The AFM thus hopes to contribute to the further development of reporting on value creation.

Section 3.1 lists the findings with respect to the manner in which the companies in the survey report on the various aspects[13] of long-term value creation. Reference is also made to a number of good practices from which companies can draw inspiration with respect to how they can report on value creation[14].

3.1 Variation in value creation reporting by listed companies

Companies are expected to provide information in their management reports that will enable users of these reports to establish whether, to what degree and in what manner the company has created value and will create value in the future. They are also expected to report on the influence of their business model on value creation and/or value destruction. The Monitoring Committee for instance took the view that many business models were still excessively focused on short-term profits and the financial results in the preceding year. There was also no clear relation to long-term value creation, in which non-financial results and objectives are included. The Code attempts to place the focus on this broader interpretation of value creation.

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[12] See among other things the written input of the VEB and Eumedion for the round table consultation of the House of Representatives on long-term value creation, 30 October 2019.
[13] See 'Appendix 1 Objectives, design and population' for a detailed description of the aspects of long-term value creation that were featured in our survey.
[14] The AFM hopes that companies will be inspired by the good practices described in this report to make further improvements. These good practices should not be seen as a standard or as the only correct formulation. Other formulations are of course also possible.

The AFM has conducted a survey of the annual reporting of a total of 39 listed companies. 20 of these companies are in the AEX Index, and 19 are in the AMX Index. Table 1 shows that slightly over half (51%) of the companies in the population score above the average on their reporting of value creation. Although these companies generally have adequate scores on the analysis questions (see appendix 1), they also can improve their reporting. Of the 51%, 23% (9 companies) qualify as leaders in the area of value creation reporting.

In addition to its analysis of the annual reporting, the AFM interviewed 10 companies (5 in the above-average category and 5 in the below-average category). From these interviews, it can be inferred that direction and reporting on a broader form of value creation that is not focused solely on financial value creation at companies with above-average scores are driven primarily by an internal commitment in interaction with external demand from stakeholders.

"Reporting on value creation is in our DNA. It is not about compliance. The management report is a living document that tells the story that is important for our business and our stakeholders."

"Until now, value creation is primarily focused on financial value creation for our shareholders."

Direction and reporting on value creation at companies scoring below the average is, in their opinion, an issue that relates mainly to external demand from compliance, customers or shareholders. These companies state that in their view, reporting on more than just financial value creation involves additional cost. Based on the feedback from the interviews, these companies may only be willing to make changes with respect to their direction and reporting on value creation if this becomes a statutory requirement or there is strong demand for it from their stakeholders.

Table 1 – Score on value creation reporting[15]

Final assessment of value creation	Number of companies – Total AEX and AMX	Number of AEX companies	Number of AMX companies
Above average	20 (51%)	13 (65%)	7 (36%)
Average	10 (26%)	4 (20%)	6 (32%)
Below average	9 (23%)	3 (15%)	6 (32%)
Total	**39 (100%)**	**20 (100%)**	**19 (100%)**

[15] See appendix 1 under *Categories.*

3.1.1 Reporting on value creation in the annual reporting could be more specific

Most companies report on value creation in their management reports. The reporting on value creation by slightly more than half (51%) of the companies in the population is too generic. Companies with below-average scores (23%) present their reporting on value creation using general descriptions, they do not have a clear value creation model, they have a value creation model but offer no or very limited disclosure of this and they focus primarily on financial value creation. The interviews the AFM held with some of these companies revealed that they interpret value creation primarily as the creation of financial value for their shareholders.

> *"Sustainability is a relatively recent theme. Non-financial value creation is still growing, financial value creation is clear."*

The companies that do not yet report specifically on broader value creation stated in the interviews that they were engaged internally with the theme of sustainability, non-financial information and value creation, but they had not yet reached the point at which they were able to report on this externally. One possible explanation for failure to keep up with reporting on value creation is the novelty of this item and the lack of a clear definition.

> *"We have to make money. If we don't, we have no future."*

A number of companies with below-average scores stated during the interviews that cost and the scale of their organisation were the main reasons for reporting only financial information and their reluctance to meet the requirements for the reporting of non-financial information. However, they did concede that there had been increasing demand from investors and other stakeholders in recent years, and that this had created attention to the importance of non-financial indicators. For this group of companies, external factors (such as compliance, demand from customers and investors) could play a decisive role in getting them to change course.

49% of the companies report the activities, realised results, outcome, impact and objectives for each capital. Figure 1 shows an example of good practice for a graphic representation of a value creation model. Figure 2 shows an example of good practice of how companies can then report specifically on their creation of value in the text. In the example, the company reports on human capital in a manner specific to its own organisation.

Figure 1 – Good practice: Graphic representation of a value creation model (2018 annual reporting of Koninklijke Philips N.V. pages 8-10)

Capital input

The capitals (resources and relationships) that Philips draws upon for its business activities

Human

- Employees 77,400, 120 nationalities, 38% female
- Philips University 1,200 new courses, 700,000 hours, 550,000 training completions
- 29,977 employees in growth geographies
- Focus on Inclusion & Diversity

Intellectual

- Invested in R&D EUR 1.76 billion (Green Innovation EUR 228 million)
- Employees in R&D 10,528 across the globe including growth geographies

Financial

- Equity EUR 12.1 billion
- Net debt[*)] EUR 3.1 billion

Manufacturing

- Employees in production 30,925
- Manufacturing sites 39, cost of materials used EUR 4.8 billion
- Total assets EUR 26.0 billion
- Capital expenditure EUR 422 million

Natural

- Energy used in manufacturing 3,062 terajoules
- Water used 891,000 m^3
- Recycled plastics in our products 1,840 tonnes
- 19 'zero waste to landfill' sites
- Pledge to take back all medical equipment by 2025

Social

- Philips Foundation
- Stakeholder engagement
- New volunteering policy

Philips Business System

With its four interlocking elements, the Philips Business System (PBS) is designed to help us deliver on our mission and vision – and to ensure that success is repeatable. As we execute our strategy and invest in the best opportunities, leverage our unique strengths and become operationally excellent, we will be able to consistently deliver value to our customers, consumers, shareholders, and other stakeholders.

Strategy - Where we invest

We manage our portfolio with clearly defined strategies and allocate resources to maximize value creation.

Capabilities, Assets and Positions - Our unique strengths

We strengthen and leverage our core Capabilities, Assets and Positions as they create differential value: deep customer insight, technology innovation, our brand, global footprint, and our people.

Excellence - How we operate

We are a learning organization that applies common operating principles and practices to deliver to our customers with excellence.

Path to Value - What we deliver

We define and execute business plans that deliver sustainable results along a credible Path to Value.

Human

We employ diverse and talented people and give them the skills and training they need to ensure their effectiveness and their personal development and employability.

Intellectual

We apply our innovation and design expertise to create new products and solutions that meet local customer needs.

Financial

We generate the funds we need through our business operations and where appropriate raise additional financing from capital providers.

Manufacturing

We apply Lean techniques to our manufacturing processes to produce high-quality products. We manage our supply chain in a responsible way.

Natural

We are a responsible company and aim to minimize the environmental impact of our supply chain, our operations, and also our products and solutions.

Social

We contribute to our customers and society through our products and solutions, our tax payments, the products and services we buy, and our investments in local communities.

Value outcomes

The result of the application of the six forms of capital to Philips' business activities and processes as shaped by the Philips Business System

Human

- Employee Engagement Index 74% favorable
- Sales per employee EUR 234,121

Intellectual

- New patent filings 1,120
- IP Royalties Adjusted EBITA*) EUR 272 million
- 141 design awards

Financial

- Comparable sales growth*) 5%
- 64% Green Revenues
- Adjusted EBITA*) as a % of sales 13.1%
- Net cash provided by operating activities EUR 1.8 billion
- Net capital expenditures EUR 796 million

Manufacturing

- EUR 18.1 billion revenues from products and solutions sold

Natural

- 12% revenues from circular propositions
- Net CO_2 emissions down to 436 kilotonnes
- 257,000 tonnes (estimated) materials used to put products on the market
- Waste down to 24.5 kilotonnes, of which 84% recycled

Social

- Brand value USD 12.1 billion (Interbrand)
- Partnerships with UNICEF, Red Cross, Amref and Ashoka

Societal impact

The societal impact of Philips though its supply chain, its operations, and its products and solutions

Human

- Employee benefit expenses EUR 5,287 million
- Appointed 77% of our senior positions from internal sources
- 21% of Leadership positions held by women

Intellectual

- Around 40% of revenues from new products and solutions introduced in the last three years

Financial

- Market capitalization EUR 28.3 billion at year-end
- Long-term credit rating A- (Fitch), Baa1 (Moody's), BBB+ (Standard & Poor's)
- Dividend EUR 738 million

Manufacturing

- 90% electricity from renewable sources
- 240,000 employees impacted at suppliers participating in the 'Beyond Auditing' program

Natural

- Environmental impact Philips operations down to EUR 175 million
- 1st health technology company to have its CO_2 reductions assessed and approved by the Science Based Targets initiative

Social

- 1.54 billion Lives Improved (2.24 billion including Signify), of which 175 million in underserved communities
- Income tax paid EUR 301 million; the geographic statutory income tax rate is 25% of the result before tax

*) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 90.

Figure 2 – Good practice: Specific reporting on value creation for each capital (2018 annual reporting of Arcadis N.V. page 45)

People Strategy

Our People Strategy outlines the key focus areas that will contribute to Improving Quality of Life from a people perspective:

Why

Create an environment where people can be their best and access opportunitues that work for them and the world around them to **Improve Quality of Life**

How

People First	Living our Values	Develop for the future
Create an environment in which people come first and are able to grow, perform and succeed, enabling them to reach their potential. A place where people aspire to be, a place that people are proud of and a place where inspiring leaders empower people to be their best.	A culture that is lived out by all Arcadians globally, through our values and behaviors. A great place to work where people feel valued and have a sense of belonging. A culture that supports and encourages inclusiveness; our people reflecting the diversity of the communities we work and live in.	With a focus on developing our people for future market, client and technology changes. Looking ahead to ensure our people are equipped to be leading in our industry and we therefore invest in future skills and capabilities. Encouraging diversity and innovative thinking.

These three pillars (People First, Living our Values and Develop for the Future) reinforce the most relevant material topics for our people:

- An environment in which everyone can grow, perform and succeed
- An environment where people feel they belong and have their voices heard, and
- An environment where people can develop themselves to be fit for the future

Ultimately, we want to create a fulfilling employee experience and become an employer of choice.

Employee engagement

Connected material topic 17

Important to these stakeholders:
- Suppliers
- Civil Society

See our overview of material topics on page 35, and the connectivity matrix on pages 40 and 41.

An engaged workforce is essential for Arcadis. The annual Arcadis Employee engagement survey, 'Your Voice'[1], helps us understand how employees feel at work and where we need to improve. The goal is to ensure that people are proud to work at Arcadis and that they can bring the best of themselves:

- This year we piloted a 'pulse' survey – a short questionnaire that still collects essential information about engagement, with the intent to move to more frequent pulse surveys in 2019. This allows faster follow up on feedback, as the one-year cycle gives teams more time to make a meaningful change.
- The 2018 survey was sent to all employees (except CallisonRTKL) and measured both engagement and people's view of line management. It had a 64% response rate. The engagement score jumped to 3.10 from 3.03 in 2017.
- The results showed encouraging movement in key areas. Employees confirmed their ambassadorship of our products and services, with 94% agreeing that they would recommend our products and services (93% in 2017). 91% of our employees feel they are able to impact the performance of Arcadis through their work (versus 83% in 2017 – the strongest score improvement) and 90% of the respondents indicate they are proud of working for Arcadis.
- We have started implementing our new global performance management framework, Grow Perform Succeed, which is an evolved approach towards performance, focusing on a continuous conversation between line manager and direct report instead of the traditional performance reviews.

Employee Engagement score[1,2]
on a scale of 0–4

3.10

2017: 3.03

1 Run in 2014, 2015, 2017 and 2018
2 Employees of CallisonRTKL are not included in the engagement scan of 2018

The companies reporting specifically on value creation all stated during the interviews that value creation is part of their business model and the company's DNA. These companies have a clear ambition to continue to improve the manner of their reporting. They see their annual reporting as a document that tells the story of their organisation to all their stakeholders.

> *"We have made clear progress on how we report on value creation in recent years, but there is still room for improvement."*

Our survey of how, why and in what form companies create value shows that the vast majority (85%) of the companies surveyed do provide information on how value is created. 69% reported the form in which they create value and slightly under half (46%) report on why they create value. The other companies do not or not specifically state why they create value. The companies that do not specifically report use general expressions such as *"we aim to make a positive contribution"*. The links between the various capitals are also often not explained. Figure 3 shows an example of good practice for how companies can report more specifically on why they create value and the impact that they thereby achieve. This example makes a connection with the long-term impact for stakeholders and society.

Figure 3 – Good practice: How companies report why they create value (2018 annual reporting of KPN N.V., page 74)

Beyond the direct impact that we make with our core business, we also have an impact on society as a whole. We aim to help the Netherlands move forward with our high-quality connectivity, our contribution to the healthcare sector, our environmental commitments and our support of social inclusion. In this way, we contribute to the Sustainable Development Goals (SDGs).

Our societal impact directly relates to SDG 9 (Industry, Innovation and Infrastructure), SDG 11 (Sustainable Cities and Communities) and SDG 12 (Responsible Consumption and Production). With KPN's focus on the healthcare sector in the Netherlands, we intend to make a considerable contribution to the realization of SDG 3 (Good Health and Well-being). We therefore added this SDG to the primary SDGs we focus on. The focus areas of these SDGs correspond with the topics that we have discussed with our stakeholders throughout the year.

We have a strong potential for positive impact at scale through our business, but our activities also make demands on natural sources, and digitalization also has its negative sides. Being aware of this, we take our responsibility to mitigate potential negative impact. Through multi-stakeholder collaboration, we can accelerate positive impacts on sustainable development. Our impact on society and the realization of the SDGs is set out below.
In 2019, we will continue to increase our efforts and further align the SDG sub-targets with our own KPIs to gain more insight in our impact on the realization of the SDGs.

There is considerable variation in the way in which companies explain their value creation model and the information they include in this model. The value creation models contain input for the business models in most cases. This is presented on the basis of a number of capitals. The most frequent capitals reported in the value creation model concern the financial, human, social and relational capitals (see table 2).

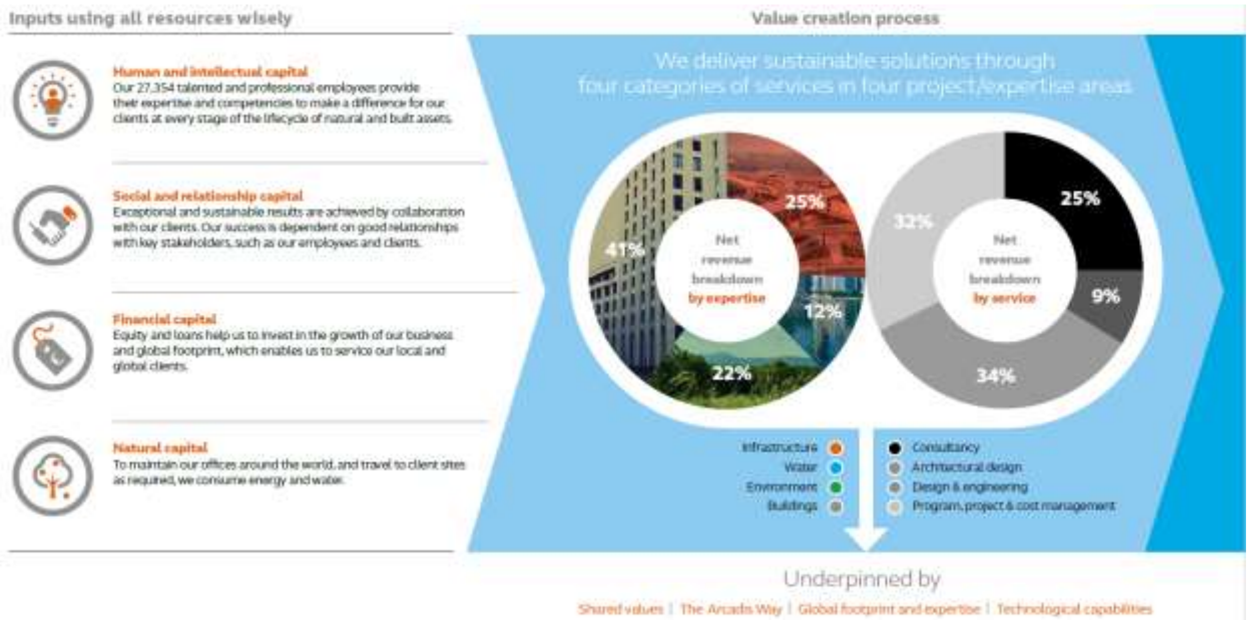
Four of the companies chose to report in their value creation models on other types of capital, such as externally purchased technological capital, in addition to the six generally recognised capitals[16].

Table 2 – Capital categories in the value creation model

Types of capital	Number of companies (% of the total population N=39)
Financial capital	74%
Human capital	74%
Social and relational capital	72%
Natural capital	59%
Intellectual capital	44%
Manufactured capital	36%
Other capital	10%

Figure 4 shows an example of good practice of a value creation model in which the business model is developed on the basis of the capitals. The model also clearly includes the business model, in which reporting of input, activities, output and outcome is presented.

Figure 4 – Good practice: value creation model on the basis of capitals (2018 annual reporting of Arcadis N.V., pages 14-15)



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[16] In its 2013 Framework, the International Integrated Reporting Council identifies six capitals; financial, human, social and relational, natural, intellectual and manufactured capital. The AFM notes from the annual reporting that the vast majority of the companies surveyed use these categories of capital in their reporting of value creation and the business model. Of course, each organisation is different, and therefore may not necessarily need to report on all the six categories of capital.

3.1.2 The distinction between time periods in reporting on value creation could be clearer

The various regulation and frameworks assign an important role to the distinction between time periods in the reporting on value creation. For instance, Principle 1.1.4 of the Code states that in its report, the management board should include an account of its view with respect to value creation in the long term and its strategy for achieving this, as well as the contribution to this strategy made in the past financial year. The Code also requires companies to report on developments in both the short and the long term. The <IR> framework recognises multiple time periods and refers to value creation in the short, medium and long term.
The survey revealed that 23% of the companies in the population made a distinction between time periods in their reporting on value creation. 33% of the companies made some partial distinction between time periods in their reporting on value creation, with most presenting specific reporting on short-term value creation and general texts with respect to value creation in the long term. Few devoted attention to value creation in the medium term. Companies with an above-average score reported specifically on non-financial KPIs related to the value creation model, with an account of the developments in the short (2018), medium (2020) and long term (2030) (see figure 5). Obviously, these time periods vary from one company or sector to another. What is long term for one company may be short term for another. Companies can thus use the time periods that are appropriate to them.

The consideration of risks for the risk paragraph should take account of the long lead time that may apply to risks in relation to natural capital, for example. A risk that has no impact in the short term may have become irreversible at the time when it manifests. This aspect should be included in the determination of the major risks for the company concerned.

Figure 5 – Good practice: distinction between short-, medium- and long-term value creation (2018 annual reporting of Heineken N.V. pages 120-121 and 125)

Drop the C – reducing CO_2 emissions

Climate change is one of the biggest challenges facing society. We feel responsible for our share in cutting CO_2 emissions and limiting climate change. We are ahead of our 2020 ambition for production (reduction of 47% in 2018 vs. the baseline) and cooling (50%). We continue efforts to reach the target in distribution (13%). We reassessed our carbon footprint, last published in 2015, to show our emissions across the entire value chain. In 2018, we launched our CO_2 reduction strategy for 2030, Drop the C. It focuses on energy efficiency, electricity and thermal renewable energy generation in production, distribution, packaging and cooling.

Drop the C – reducing CO_2 emissions

	2020 commitment	2018 result	Our progress
Lower emissions in production	Reduce CO_2 emissions from production by 40% to 6.4 kg CO_2-eq/hl (vs. 2008)	We reduced CO_2 emissions from production by 47% to 5.5 kg CO_2-eq/hl	On track
Reduce emissions from distribution in Europe and the Americas	Reduce CO_2 emissions from distribution by 20% in Europe and the Americas (vs. 2010/11)	We reduced our emissions from distribution by 13% (27% in Americas and 12% in Europe, including Russia)	More to do
Lower emissions of our fridges	Reduce the CO_2 emissions of our fridges by 50% (vs. 2010)	Almost 100% green fridges purchased. We reduced CO_2 emissions of our fridges by 50%	On track

3.1.3 Companies could devote more attention to outcome and impact in their value creation models

The various regulation and frameworks require reporting on the vision, strategy, business model and output in relation to value creation[17].

The survey shows that a majority (69%) present their reporting on value creation in graphic form. The value creation models generally include an overview of the business model. All these companies (69% of the total) presenting a graphic representation of their value creation models also included the input[18] capitals, such as financial and human capital and showed the relationship with the strategy. The vast majority (82%) of the companies in the population listed the activities[19] that contribute to their value creation process and strategy in their annual reporting. A majority of the companies (77%) in the population also described the output[20] and its relationship to their strategy. However, the companies still did not devote sufficient attention to outcome[21] and impact[22] in their value creation models. 28% of the companies in the population made a distinction between outcome and impact in relation to value creation. Companies that did report on the outcome and impact created also made reference to the Sustainable Development Goals of the United Nations (hereinafter: SDGs). The AFM also notes that the information reported is still mainly focused on positive value creation. The interviews with the companies revealed that they see reporting on any value destruction as challenging. The AFM sees an element of ‘cherry-picking’ and positive marketing in the selection of SDGs by companies. A more comprehensive focus that centres on the most relevant SDGs would be more appropriate to the purpose and urgency of the SDGs.

> *“Transparency on challenges is still a challenge in the reporting process”*

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[17] The NFID, Guidelines, GRI and <IR> framework of the IIRC, among others.
[18] Input covers factors such as the people or resources that are deployed. The value creation model generally describes this on the basis of the various capitals (financial, human, manufactured, social and relational, intellectual and natural).
[19] Activities are the actions taken with the input capitals.
[20] Output is the performance generated by the activities in the short term. Figure 4 shows an example of reporting on output.
[21] Outcome concerns the direct effects or changes as a result of the input, activities and performance. Figures 1 and 4 show an example of reporting on outcome.
[22] Impact is the long-term effect of outcome on society and our living environment. In other words, the societal change that is ultimately achieved. Figure 1 shows an example of reporting on impact.

The AFM notes that the degree of detail in the graphic model varies from one company to another. Some companies choose to include a description of the input, activities, output, outcome and impact, while others present a more concise graphic representation and then provide a more detailed description of their business model and the value created in the text. A form of reporting in which companies report in graphic form in a single figure on value creation in organisation-specific terms would contribute to clearer insight into the value creation process for stakeholders. Nonetheless, a graphic model should not be an end in itself, but should be a means of providing insight into value creation. Companies with above-average scores reported on the outcome in quantitative terms in their annual reporting. In addition, the AFM wishes to note that companies need to devote greater attention to the challenges and dilemmas that affect value creation.

3.1.4 Companies could be more specific in their annual reporting with respect to the risks in relation to natural, manufactured and intellectual capital

Investors consider it important to understand the opportunities and risks that companies face. This is why it is important that companies report on this.

Principle 1.1.1 of the Code for example states that a company's management board should develop a view on long-term value creation and should formulate a strategy in line with this. The formulation of this strategy should in any case include attention to a company's opportunities and risks.

The AFM has established how companies report on their realised results and risks of the capitals included in the value creation model. The findings are stated in table 3. This shows that most of the companies in the population have good insight into the financial results and risks related to financial capital and also report specifically on them.

Table 3 – Reporting on performance and risks with respect to the capitals

Types of capital	Number of companies (% of the total population N=39)	
	Result – Specifically reported	**Risks – Specifically reported**
Financial capital	34 (87%)	31 (79%)
Human capital	26 (67%)	18 (46%)
Social and relational capital	23 (59%)	13 (33%)
Natural capital	23 (59%)	5 (13%)
Intellectual capital	9 (23%)	13 (33%)
Manufactured capital	8 (21%)	3 (8%)

Around half of the companies in the population that included natural capital in their value creation models stated the specific result relating to natural capital. There are few further details of the specific risks with respect to natural capital in the annual reporting. This finding is in line with the analysis conducted by the AFM of how companies report on the Taskforce on Climate-Related Financial Disclosure (hereinafter: the TCFD) recommendations (see section 4.2). Intellectual and manufactured capital are stated in the value creation model, but few details are provided of the risks and results.

Figure 6 shows an example of good practice by a company that presents an account of the risks relating to natural capital in its annual reporting. This company reports specifically on the risks with respect to the climate and plastic packaging. It also reports on the climate risks in relation to the TCFD recommendations and the impact of a 2°C and a 4°C scenario.

Figure 6 – Good practice: Risks in relation to natural capital (2018 annual reporting of Unilever N.V., pages 30 & 33)

DESCRIPTION OF RISK	WHAT WE ARE DOING TO MANAGE THE RISK
CLIMATE CHANGE **Climate changes and governmental actions to reduce such changes may disrupt our operations and/or reduce consumer demand for our products.** Climate changes are occurring around the globe which may impact our business in various ways. They could lead to water shortages which would reduce demand for those of our products that require a significant amount of water during consumer use. They could also lead to an increase in raw material and packaging prices or reduced availability. Governments may take action to reduce climate change such as the introduction of a carbon tax or zero net deforestation requirements which could impact our business through higher costs or reduced flexibility of operations. Increased frequency of extreme weather (storms and floods) could cause increased incidence of disruption to our manufacturing and distribution network. Climate change could result therefore in making products less affordable or less available for our consumers resulting in reduced growth and profitability.	As part of our Unilever Sustainable Living Plan we monitor climate change and are responding by developing operations and products with reduced environmental impact. We seek to develop products that will require less water during consumer use. We aim to minimise our impact on climate change through committing to emission reduction targets and have developed a roadmap to be carbon positive by 2030. We monitor trends in raw material availability and pricing, and proactively reformulate our products where appropriate. We monitor governmental developments around actions to combat climate change and act to minimise the impact on our operations.
PLASTIC PACKAGING **A reduction in the amount of plastic and an increase in the use of recyclable content in our packaging is critical to our future success.** Both consumer and customer responses to the environmental impact of plastic waste and emerging regulation by governments to tax or ban the use of certain plastics requires us to find solutions to reduce the amount of plastic we use; increase recycling post-consumer use; and to source recycled plastic for use in our packaging. We are also dependent on the work of our industry partners to create and improve recycling infrastructures throughout the globe. Not only is there a risk around finding appropriate replacement materials, due to high demand the cost of recycled plastic or other alternative packaging materials could significantly increase in the foreseeable future and this could impact our business performance. We could also be exposed to higher costs as a result of taxes or fines if we are unable to comply with plastic regulations which would again impact our profitability and reputation.	We are committed to reducing the amount of post-consumer plastic packaging waste going to landfill. We have a clear strategy to use less plastic, better plastic (ie plastic with a lower environmental footprint) or to avoid plastic completely where a better alternative exists. We aim to do this by developing a circular economy approach which involves: Redesigning products by considering modular packaging, design for disassembly and reassembly, wider use of refills, recycling and using post-consumer recycled materials in innovative ways; Driving systematic change in circular thinking at an industry level by working with partners such as the Ellen MacArthur Foundation; Working with governments, industry partners, suppliers and consumers to raise awareness and find solutions to improve the recycling infrastructure for plastics; Working with consumers to help them understand disposal methods and collection facilities; Working on innovative solutions through new business models. We also seek to provide greater transparency to the consumer on the amount of plastic in our products through on-pack labelling.

IN FOCUS: CLIMATE CHANGE RISKS AND OPPORTUNITIES

UNILEVER HAS PUBLICLY COMMITTED TO IMPLEMENTING THE RECOMMENDATIONS OF THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES.

Unilever recognises the importance of disclosing climate-related risks and opportunities. Adopting the Taskforce on Climate-Related Financial Disclosures (TCFD) recommendations is an important step forward in enabling market forces to drive efficient allocation of capital and support a smooth transition to a low-carbon economy.

The main impacts of the 2°C scenario were as follows:

- Carbon pricing is introduced in key countries and hence there are increases in both manufacturing costs and the costs of raw materials such as dairy ingredients and the metals used in packaging.
- Zero net deforestation requirements are introduced and a shift to sustainable agriculture puts pressure on agricultural production, raising the price of certain raw materials.

The main impacts of the 4°C scenario were as follows:

- Chronic and acute water stress reduces agricultural productivity in some regions, raising prices of raw materials.
- Increased frequency of extreme weather (storms and floods) causes increased incidence of disruption to our manufacturing and distribution networks.
- Temperature increase and extreme weather events reduce economic activity, GDP growth and hence sales levels fall.

Our analysis shows that, without action, both scenarios present financial risks to Unilever by 2030, predominantly due to increased costs. However, while there are financial risks which would need to be managed, we would not have to materially change our business model. The most significant impacts of both scenarios are on our supply chain where costs of raw materials and packaging rise, due to carbon pricing and rapid shift to sustainable agriculture in a 2°C scenario and due to chronic water stress and extreme weather in a 4°C scenario. The impacts on sales and our own manufacturing operations are relatively small.

Figure 7 shows an example of good practice by a company that uses a connectivity matrix in its annual reporting to explain how it interprets its value creation on the basis of the company's strategy, risks and objectives and material themes identified by stakeholders. Comparative figures were also provided for the material KPIs. Further qualitative and quantitative information on the items in the overview is provided in the management report. This overview makes the information reported more readable and more comprehensible.

Figure 7 – Good practice: Cohesion between strategy, objectives, material KPIs, risks and realised results (2018 annual reporting of Arcadis N.V., pages 40-41)

3.1.5 Companies could devote greater attention to the link between long-term value creation and the company's governance

The AFM has analysed whether listed companies devote sufficient attention to the vision of the management with respect to long-term value creation in their management reports. 69% of the companies surveyed did devote attention to this in their management reports. 62% of the population devoted attention to how the management's vision in relation to long-term value creation is linked to its strategy in the management report. 31% of the companies surveyed made a connection between their governance and how this connects with the company's long-term goals and strategy in their reports. The companies that provide this insight do so mainly in the text, providing a description of their priorities, strategy and the role of the management board, management and the corporate responsibility committee (if applicable) in achieving these goals. Figure 9 gives an example of good practice by a company that reported the link between its governance and its long-term objectives with respect to sustainability. Most of the companies in the population that make a connection between governance and long-term objectives do so mainly with respect to their strategy in relation to sustainability. Making a connection with a broader set of non-financial long-term strategic objectives is a natural next step.

Figure 8 – Good practice: Link between governance structure and long-term objectives (2018 annual reporting of KPN, page 79)

Corporate social responsibility governance

Corporate social responsibility (CSR) is embedded in KPN's organizational structure. CSR themes are defined and approved by the Executive Committee, including their ambitions and KPIs. Every CSR theme is assigned to a member of the senior management who, as theme owner, is responsible for stakeholder dialog, targets, progress and results. Each theme owner heads a committee, consisting of management of the key departments involved in this theme. Every five weeks, the theme owners get together to discuss how to align initiatives over the various themes and review progress against targets, with a member of the Board of Management periodically in attendance. This meeting is chaired by KPN's CSR Manager, who is responsible for the overall reporting, approach and cohesion. The CSR Manager reports to the Director Corporate Communication & CSR, who is a member of the Executive Committee and responsible for the communication to the Executive Committee. Four times a year, CSR data is included in the overall set of business KPIs that is reported to and discussed with the Board of Management. In order to obtain sufficient outside reflection, an Advisory Board consisting of external experts has been established to advise KPN on its approach to CSR.

3.1.6 Slightly over half of the companies report on how the implementation of their remuneration policy contributes to long-term value creation. The link between remuneration and capitals needs to be clearer

The interviews with the companies showed that the commitment of the management board and the management is an important driver for reporting on long-term value creation. This commitment could be encouraged by linking long-term value creation to the company's remuneration policy, for example. The Code[23] for example proposes that companies should make it clear how the implementation of the remuneration policy contributes to long-term value creation.

The survey conducted by the AFM shows that slightly over half of the companies (51%) report in their annual reporting on how the implementation of their remuneration policy contributes to long-term value creation. Figure 10 shows an example of good practice regarding how companies report on this. The companies that fail to do this in most cases have not explained why they are not observing the provisions of the Code. The relationship between remuneration and results from capitals is less often (44%) explained in the annual reporting. The example shown in figure 10 shows how the company linked its remuneration policy to the results on a number of financial and non-financial capitals.

Figure 9 – Good practice: Implementation of remuneration policy and long-term value creation (2018 annual reporting of Koninklijke DSM N.V., pages 133 and 135)

- The remuneration policy reflects a balance between the interests of DSM's main stakeholders as well as a balance between the company's short-term and long-term strategy. As a result, the structure of the remuneration package for the Managing Board is designed to balance short-term operational performance with the medium- and long-term objective of creating sustainable value within the company, while considering the interests of all of its stakeholders. DSM sets a clear strategic direction and executes this with agility. DSM strives for high financial performance, as well as in the field of sustainability, and aims to maintain a good balance between economic gain, respect for people and concern for the environment, in line with the DSM values and business principles as reflected in the DSM Code of Business Conduct

[23] Principle 3.4.1 Remuneration report.

In addition to shared sustainability targets (15%), a limited number of individual (financial and non-financial) targets (10%) will apply.

Target areas	On-target pay-out (% of base salary)
- Sustainability (three targets with an equal weight of 5% each; BLS, Employee Engagement and Safety)	15
- Individual (financial and non-financial)	10
Total	25

The LTI performance targets are defined as follows:

- **Relative Total Shareholder Return (TSR)**
  This is used to compare the performance of different companies' stocks and shares over time. It combines share price appreciation and dividends paid to show the total return to shareholders. The relative TSR position reflects the market perception of overall performance relative to a reference group.
- **Return on Capital Employed (ROCE) growth**
  This is the operating profit as a percentage of weighted average capital employed.
- **Energy Efficiency Improvement (EEI)**
  This is the reduction of the amount of energy that is used per unit of product (known as energy efficiency) on a three-year rolling average basis.
- **Greenhouse Gas Emissions (GHGE) Efficiency Improvement**
  This is the reduction of the amount of greenhouse gas emissions per unit of product. The definition of greenhouse gases (GHG) according to the Kyoto Protocol includes carbon dioxide (CO_2), methane, nitrous oxide (N_2O), sulfur hexafluoride, hydrofluorocarbons and perfluorocarbons.
  The scope for calculation of GHGE reduction is as follows:
  (I) DSM's direct emissions (on-site or from DSM assets) mainly comprise CO_2 (scope 1)
  (II) DSM's indirect emissions (emissions created on behalf of DSM in the generation of electricity or the delivery of energy via hot water or steam) relate to electricity from the grid. DSM relies on local suppliers (scope 2)

> In determining the number of shares to be conditionally granted, the Supervisory Board takes into account the face value of the DSM share instead of the discounted fair value. This is in line with best practice and provides total transparency to shareholders. The policy for the value of the LTI is set at 100% of base salary for on-target performance and 150% in the case of excellent over-performance (face value; at fair value this would be 50% and 75%). The number of conditionally granted shares is set by dividing the policy level at maximum (150% of base salary) by a share price at the beginning of the year of the conditional grant; as a result of this, the number of shares granted annually may fluctuate.

3.1.7 Companies state that an assurance report by an auditor is useful

The survey reveals that 44% of the companies in the population had assurance procedures[24] performed by the auditor on their reported non-financial information. Twelve of the companies (31%) in the population had an assurance report based on a limited degree of assurance attached to their annual reporting. Four companies (10%) in the population had an assurance report on the basis of a reasonable degree of assurance attached to their annual reporting, and one company (3%) in the population had a statement from the statutory auditor regarding the non-financial information reported on the basis of a combined degree of assurance (a limited and reasonable degree of assurance).

36% of the companies in the population had the assurance report on their reported non-financial information signed by the auditor responsible for the audit. Three companies (8%) in the population had an assurance report signed by a different auditor, but from the same audit firm as the auditor responsible for the audit.

Three (8%) companies in the population provided one integrated statement (combination of audit and assurance). 36% of the companies in the population provided an audit report and a separate assurance report regarding the non-financial information in their annual reporting.

The interviews with the companies that had an assurance engagement performed by the statutory auditor showed that these companies believe that a separate audit adds value. Users of annual reporting are not yet requesting a reasonable degree of assurance regarding the non-financial information and therefore a limited degree of assurance is, in the opinion of the companies concerned, sufficient at this time. The companies with below-average scores for their reporting on value creation also mostly did not include any specific assurance report with respect to the non-financial information in their annual reporting. These companies stated that a separate

[24] As a part of the annual reporting, the management report is subject to the statutory audit by the auditor responsible for the audit. Companies also engage auditors to perform an assurance engagement regarding the non-financial information in their annual reporting.

assurance report on non-financial information was neither necessary nor mandatory, and that they did not consider this to be relevant for reasons of cost.

4. Greater transparency on non-financial aspects, in particular the consequences of climate change, is urgent and necessary

With effect from the 2017 financial year, large PIEs have to report in their management reports on their policy, risks and performance on environmental, social and human resources aspects, diversity, respect for human rights and combating corruption and bribery. The AFM carried out a survey of this in 2018[25]. The conclusion of the survey was that 80% of the 89 listed companies reported on their policy with respect to the various categories of non-financial information in their management reports. However, there was room for improvement in the translation of policy into risks, KPIs and results. A number of companies who fell well short of compliance were sent a letter by the AFM at the end of 2018 informing them that their management reports for 2018 would be evaluated by the AFM.

We carried out a follow-up to our thematic review of non-financial information in the management reports for 2017 in 2019. This involved the assessment of the management reports of 33 companies, including 17 companies that had received the above-mentioned letter. We also held interviews with seven of these companies to establish the nature of the problem and to achieve better compliance with the NFID. The findings from the follow-up concern only those companies that had fallen short of compliance with the NFID in 2018.

4.1 Follow-up shows a varied picture of compliance with the NFID

The follow-up revealed that there had been an improvement in the NFI disclosures in 16 of the 33 management reports assessed in comparison to 2017. The improvement was most visible among those companies that had fallen well short in the previous year and had been sent a letter by the AFM. A majority of these companies achieved improvements. The improvement mainly concerned more extensive disclosure of NFI, compared to little of NFI being presented in the previous year. These companies face a challenge to bring the quality of their NFI up to a good level. The interviews with these companies revealed that they had recently started to report NFI externally, and that they needed time to achieve a degree of maturity in their NFI reporting. Many of these companies initiated further measures in 2019 to develop and improve their reporting of NFI. The companies not sent a letter by the AFM showed no clear improvement. Their reported NFI was virtually the same as for 2017. They provided the minimum information required, but still need to make progress with respect to the quality of this information.

The shortcomings found in this review were more or less in line with the findings of the review in 2018. Generally, the information reported was not sufficiently specific in nature.

[25] See the report: https://www.afm.nl/~/profmedia/files/onderwerpen/financiele-verslaggeving/niet-financiele-info-bestuursverslagen.pdf

We also noted the following shortcomings:

- the lack of relevant targets;
- limited reference or no reference at all to NFI factors in the risk section;
- reporting of NFI in isolation in the management report, with no clear link to the company's strategy and objectives;
- no disclosure of the absence of a policy if the company has no policy with respect to a category of NFI;
- the lack of comparative figures for the KPIs.

The reporting on policy mostly featured the elements of diversity, HR and the environment. Companies still score poorly on their reporting on human rights and anti-corruption and bribery. One positive feature is that over two-thirds of the companies reported a materiality matrix. This helps users to better understand the categories of NFI that are relevant to the company.

From the interviews with the companies and the management reports, the AFM gained the impression that companies are continuing to work on further developing their provision of relevant non-financial information in their future management reports.
The AFM expects to include compliance with the NFID in its ongoing supervisory activities with effect from 2020. The AFM expects companies to make further progress in raising the quality of their non-financial reporting.

4.2 Little disclosure of the effects of climate change, while this is needed and is becoming more urgent

As mentioned in section 2, climate change is one of the most urgent themes we face in the world. According to the respondents to the annual survey for the Global Risks Report 2019 of the World Economic Forum, the most serious of the three most probable major risks at global level was the risk relating directly to climate change[26]. Climate risk is also seen as a risk to financial stability by The Dutch Central Bank (DNB) and the Bank of England (BoE)[27]. Besides physical risks such as natural disasters and extreme weather, climate change also involves what are known as transition risks as a result of the transition to a sustainable economy and world. If companies are not aware of these risks and fail to take measures in time, this may disrupt their business model and lead to destruction of value. In a broader context, it is also not clear how effective the efforts of individual companies are with respect to the total impact of their operations on the environment, such as their CO_2 emissions and their efforts to 'minimise' environmental impact. Insight is therefore lacking as regards the reaching of planetary boundaries. Companies do, however, have to deal with this, as is shown by the nitrogen crisis in the Netherlands. It is very important that

[26] http://www3.weforum.org/docs/WEF_Global_Risks_Report_2019.pdf
[27] See for example:
https://www.bankofengland.co.uk/knowledgebank/climate-change-what-are-the-risks-to-financial-stability
https://www.dnb.nl/en/about-dnb/co-operation/platform-voor-duurzame-financiering/climate-risks/index.jsp
https://www.dnb.nl/en/binaries/Waterproof_tcm47-363851.pdf

investors are informed regarding these risks and opportunities. For this, companies have to be transparent on this issue.

On the other hand, climate change may present opportunities for companies supplying sustainable products and services.

In its In Balance report in 2018, the AFM accordingly urged companies to follow the recommendations of the TCFD (in their management reports). The follow-up to the 2018 NFID survey and the survey of value creation also focused on climate-related disclosures. This showed that companies present only scant reporting on climate change and its effects. While several companies state that they support the TCFD recommendations, little or no information in accordance with the recommendations is presented. In the interviews, companies stated that they still did not have robust data that they could report externally. A number also stated that they were internally engaged in this and that they were participating in sector network meetings to collectively formulate the climate and TCFD requirements. We strongly urge companies to identify and manage the risks and opportunities presented by climate change and to report on this in their management reports in accordance with the Guidelines and the TCFD recommendations.

Appendix 1 Objectives, review and population

Objectives

The AFM supervises the financial reporting of listed companies on the basis of the Financial Reporting (Supervision) Act (*Wet toezicht financiële verslaggeving*, or 'Wtfv'). In this context, the AFM has carried out a survey of the reporting of value creation in the annual reporting for 2018 and a follow-up to its thematic review of non-financial information in management reports for 2017. The purpose of the survey was to obtain insight into the reporting of value creation as an important element of non-financial information. In the follow-up, the AFM selected those companies who had fallen short of compliance with the NFID in their 2017 reporting and established the degree of their compliance in their annual reporting for 2018.

The AFM also aims to influence and encourage the quality of non-financial reporting and value creation with its report on the survey and the NFID follow-up. The survey and follow-up were an extension of previous reviews of non-financial and integrated reporting.

Methodology

The survey of value creation consisted of an analysis of the 2018 annual reporting of 39 AEX and AMX companies and interviews with 10 of these companies. The questionnaires[28] used in the analysis were based on the various aspects of value creation as described in various sources. Among other things, the AFM devoted attention to the following in its analysis of the annual reporting:

- Whether and how companies report on value creation;
- The forms and time periods of value creation;
- The vision, strategy and governance with respect to value creation.

For the follow-up NFID[29], the AFM assessed the 2018 management reports of 33 companies with respect to the following aspects, among others:

- the reporting of non-financial information on policy, risks and performance with respect to the environment, human rights, and social, personnel and anti-corruption aspects;
- the business model;
- climate-related disclosures.

In addition, the AFM held interviews with seven companies.

Analysis questions

In its formulation of the questionnaire used for the analysis, the AFM decided to analyse the annual reporting of AEX and AMX companies subject to supervision on the basis of information on value creation in the Dutch Corporate Governance Code, the value creation background paper of

[28] The questionnaires for the analysis of the annual reporting were formulated on the basis of information on value creation in the Dutch Corporate Governance Code, the value creation background paper of the International Integrated Reporting Council, the guidelines of the Global Reporting Initiative and academic literature on value creation.

[29] The questionnaires for the follow-up NFID were formulated on the basis of the Decree on NFI, RJ 400, the Guidelines and the TCFD framework, among others.

the International Integrated Reporting Council, the guidelines of the Global Reporting Initiative and academic literature on value creation. The analysis was conducted on the basis of the following questions:

- Do the companies devote attention to value creation in their annual reporting?
- Does the company include a description of its business model (input, activities, output, outcome, impact) in its report and is this linked to its strategy?
- Is a distinction made between time horizons (short, medium and long term)? In particular, we looked at whether the company reports on long-term value creation in its report.
- Does the company report on the risks and performance of the relevant capitals?
- Does the company report on how, why, to what extent and for whom it creates value?
- Does the report devote attention to the management's vision with respect to long-term value creation and how this vision is linked to its strategy?
- Does the report make a connection between the governance structure and how this connects with the company's long-term goals and strategy?
- Does the company's reporting state how the implementation of its remuneration policy contributes to long-term value creation and what is the relationship between remuneration and performance?
- Are the quantitative data in the value creation model included in the assurance report by the auditor? What level of assurance does this report provide?

Categories
In its survey of value creation, the AFM qualified the annual reporting of the companies into the following categories: above average, average and below average. These scores are relative to the population of 39 companies.

Population
The survey of value creation involved 39 companies from the AEX and AMX indices whose Member State of origin is the Netherlands.

The follow-up NFID involved 33 companies that:

- have the Netherlands as their Member State of origin;
- have issued shares or bonds in a regulated market;
- fall under the scope of the NFID;
- fell short with respect to compliance with the NFID in the thematic review of non-financial information in 2017 management reports.

Appendix 2 List of companies in the survey of value creation

Company	Index (status at 01-01-2019)
Aalberts N.V.	AEX
ABN AMRO Bank N.V.	AEX
Aegon N.V.	AEX
Akzo Nobel N.V.	AEX
Altice Europe N.V.	AEX
ASML Holding N.V.	AEX
ASR Nederland N.V.	AEX
Gemalto N.V.	AEX
Heineken N.V.	AEX
ING Groep N.V.	AEX
Koninklijke Ahold Delhaize N.V.	AEX
Koninklijke DSM N.V.	AEX
Koninklijke KPN N.V.	AEX
Koninklijke Philips N.V.	AEX
Koninklijke Vopak N.V.	AEX
NN Group N.V.	AEX
Randstad Holding N.V.	AEX
Signify N.V.	AEX
Unilever N.V.	AEX
Wolters Kluwer N.V.	AEX
Adyen N.V.	AMX
AMG Advanced Metallurgical Group N.V.	AMX
Arcadis N.V.	AMX
ASM International N.V.	AMX
BE Semiconductor Industries N.V.	AMX
Corbion N.V.	AMX
Fugro N.V.	AMX
Grandvision N.V.	AMX
IMCD N.V.	AMX
Intertrust N.V.	AMX
Koninklijke BAM Groep N.V.	AMX
Koninklijke Boskalis Westminster N.V.	AMX
OCI N.V.	AMX
PostNL N.V.	AMX
SBM Offshore N.V.	AMX
Sligro Food Group N.V.	AMX
Takeaway.com N.V.	AMX
TKH Group N.V.	AMX
TomTom N.V.	AMX

Appendix 3 - List of abbreviations

AEX - Amsterdam Exchange Index

AMX - Amsterdam Midcap Index

NFID – Non-Financial Information (Disclosure) Decree

CDP - Carbon Disclosure Project

ECEP - European Common Enforcement Priorities

EFRAG - European Financial Reporting Advisory Group

ESMA - European Securities and Markets Authority

EU - European Union

GRI - Global Reporting Initiative

IASB - International Accounting Standards Board

IIRC - International Integrated Reporting Council

IOSCO - International Organization of Securities Commissions

IR – Integrated Reporting

KPI - Key Performance Indicator

PIE - Public-Interest Entity

SASB - Sustainability Accounting Standards Board

SDG - Sustainable Development Goals

TCFD - Task Force on Climate-Related Financial Disclosures

UN - United Nations

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