In Balance 2018 - part A

Thematic review of non-financial information in management reports 2017

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The Dutch Authority for the Financial Markets

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

As an independent market conduct authority, we contribute to a sustainable financial system and prosperity in the Netherlands.

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1. Management summary

Investors increasingly require information on more than just the financial performance of companies. An increasing number of companies report on sustainability aspects such as the environment, personnel, social aspects and human rights (hereinafter referred to collectively as 'non-financial information'), as well as reporting their profit and loss figures. Transparent reporting on these issues is essential to meet this need of investors.

Investors consider it important that companies report not only on non-financial aspects relating to their business, but also that they report on the impact of the environment on the company. The impact of this on the company's future cash flows is particularly important in this respect, as this is important information for investors when making decisions. Reporting by companies on the consequences of climate change for their business model is becoming increasingly urgent. The (voluntary) recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) published in 2017 and the non-binding guidelines (EU guidelines) of the European Commission can be of assistance in the reporting of non-financial matters, including the consequences of climate change. It is also important that companies and investors continue to engage in a dialogue with respect to the further development of non-financial reporting.

Since 2013, the AFM has been encouraging companies to voluntarily report on non-financial issues along the lines of integrated reporting: the reporting of relevant financial and non-financial information in their annual reporting[1]. With effect from the 2017 financial year, large public interest entities (PIEs) with more than 500 employees have been obliged to report on these matters in their management reports as part of their annual reporting as a result of the enactment of the Non-Financial Information (Disclosure) Decree (*Besluit bekendmaking niet-financiële informatie*, hereinafter 'the Decree'). In addition, large listed companies must also now report on diversity under the Diversity Policy (Disclosure) Decree (*Besluit bekendmaking diversiteitsbeleid*, hereinafter 'the Diversity Decree').

In anticipation of these new statutory requirements, the AFM carried out a survey of the status of implementation of the Decree in 2017. In 2018, the AFM reviewed all the 89 companies that fall under the scope of the Decree to establish how they were implementing the Decree and the Diversity Decree in their management reports for the 2017 financial year[2]. We also took account of the EU guidelines with respect to the Decree. Moreover, the AFM looked at the extent to which the TCFD recommendations had been applied by these 89 companies in their reporting for 2017. Lastly, the AFM considered the role of the auditor.

The review shows that these 89 companies can and must improve their reporting on the various non-financial issues. We established that:

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[1] We wish to note that non-financial information in this context concerns more than simply information on sustainability (information on environmental and social aspects). Much of the intangible assets not recognised in the balance sheets of companies but which they do actually possess (such as proprietary brands, specialist knowledge, etc.) also constitute non-financial information. This information is also useful to investors for estimating future cash flows.

[2] Sustainability reports and non-financial information on websites were not included in the survey, since under the Decree all non-financial information must be presented in the management report.

- the Decree is not complied with in all respects;
- companies can make their non-financial information more relevant, more comparable and more balanced;
- companies need to improve and broaden their reporting on diversity;
- companies are increasingly reporting on the SDGs[3], but application of the TCFD recommendations is falling behind;
- an increasing number of companies are having their non-financial information separately audited.

The Decree is not complied with in all respects

The vast majority of companies report on their policy on the various aspects of non-financial information. The translation of policy into risks, KPIs and results falls short of the desired standard. Employee-related and environmental aspects receive the most attention, with human rights, anti-corruption and bribery receiving the least.

Companies can make the reporting of their non-financial information more relevant, more balanced and more comparable

The AFM notes that the assessment of company results on non-financial aspects could be improved by the provision of more context. A materiality matrix could help companies show the relevance of their non-financial information. The AFM also notes that information is often presented in a one-sided and positive light. Comparability could also be improved, both by reporting comparative figures and by the use of generally accepted frameworks.

Companies need to improve and broaden their reporting on diversity

Most companies report on their diversity policy and the results. More than half of the companies provide information on their targets. The AFM notes that the reporting on diversity focuses mainly on the ratio of men to women. Companies need to make progress on reporting on age diversity and diversity in professional background in terms of education and experience.

Companies are increasingly reporting on the SDGs, but application of the TCFD recommendations is falling behind

The reporting on the effects of climate change on companies in terms of risks and opportunities is still minimal and needs to be accelerated in view of the urgency of the climate issue. 49% of the companies report voluntarily on the UN's sustainable development goals (SDGs). This is positive, given the voluntary nature and recentness of these goals.

[3] Sustainable Development Goals, the development goals of the UN

An increasing number of companies are having their non-financial information separately audited

The auditor provides additional assurance regarding the non-financial information in the management reports of more than 30% of the companies. This percentage in previous years has been around 20%. The AFM stresses that in the context of a statutory audit, the auditor needs to be alert to inadequate compliance with the Decree and the Diversity Decree and to state any instances of this in the auditor’s report.

The AFM will engage in dialogue with companies and auditors and audit firms to contribute to full compliance by companies with the Decree and Diversity Decree. Future enforcement action in cases of failure to comply with the obligations under the Decree and Diversity Decree is also a possibility. The AFM expects these consultations to contribute to the realisation of high quality integrated financial and non-financial reporting by companies.

2. Introduction

As an independent conduct supervisor, the AFM is a strong proponent of fair and transparent financial markets and thus contributes to sustainable financial prosperity in the Netherlands. Sustainability in the financial sector is one of the top 10 risks prioritised by the AFM in its supervision[4]. The AFM sees risks associated with sustainability that ultimately could become an obstacle if they are not addressed. The common theme in these risks is the availability and quality of information. Investors are increasingly recognising the importance of sustainability aspects and are giving these aspects increasing prominence in their decisions. These days, they also consider it important that companies report on the effect of the environment on their business and the related impact on the company's future cash flow. Reporting on the consequences of climate change is considered to be especially essential by investors[5].

Non-financial information is thus becoming an increasingly important part of the reporting by (listed) companies. The provision of greater transparency of adequate quality on relevant non-financial information by companies contributes to more complete information being available to investors and other stakeholders. This is also an important precondition for the realisation of international sustainability goals (see the SDGs below), since better availability of information to investors can lead to capital flows into companies that as a result can make a valuable contribution to the transition to a sustainable society and economy.

The necessity of this transition follows among other things from the sustainable development goals (SDGs) of the United Nations and the Paris Climate Agreement[6]. The Netherlands has committed to the SDGs and the Paris Climate Agreement.

In the Netherlands, non-financial reporting has been given a legal basis with the enactment of the Non-Financial Information (Disclosure) Decree (*Besluit bekendmaking niet-financiële informatie*, hereinafter 'the Decree') and the Diversity Policy (Disclosure) Decree (*Besluit bekendmaking diversiteitsbeleid*, hereinafter 'the Diversity Decree') since the 2017 financial year. There have also been various international initiatives that are relevant for the further development of non-financial information in 2018.

[4] AFM Trend Monitor 2019 https://www.afm.nl/en/verslaglegging/trendzicht
[5] See for example: https://www.unenvironment.org/news-and-stories/press-release/leading-investors-partner-un-boost-climate-transparency-piloting
[6] https://unfccc.int/resource/docs/2015/cop21/eng/l09r01.pdf

Some examples of these initiatives:

- The start of the 'Better Alignment' project by the leading standard setters in the field of reporting (IASB, IIRC, GRI, SASB and CDP) to achieve a better alignment between the various frameworks with respect to non-financial information and reporting[7].
- The formation within ESMA of the Narrative Reporting Working Group, with the primary objective of dealing with cases arising from supervision with respect to non-financial information and alternative performance indicators.
- The review of the IFRS Practice Statement Management Commentary[8] by the IASB and the formation of the IFRS Management Commentary Consultative Group[9].
- The formation of a European Corporate Reporting LAB by EFRAG[10].
- The publication of an Action plan on Sustainable Finance by the European Commission[11].

Some years ago, the AFM noted the increasing importance of non-financial information and since then has devoted attention to integrated reporting in its supervision. With integrated reporting, companies present relevant financial and non-financial information in an integrated report for use by investors and other stakeholders in their investment decisions.

The AFM reviewed the application of integrated reporting by listed companies in 2013[12]. Since then, reviews of this theme have been carried out each year, primarily with the aim of creating awareness and encouraging further application of integrated reporting by companies. The AFM carried out a survey of the status of implementation of the Decree in 2017. At that time, the AFM stated that it would carry out a review in 2018 of how companies had implemented the requirements of the Decree in their financial reporting for 2017. After 2018, the AFM will continue to devote attention to integrated reporting and the correct application of the Decree and the Diversity Decree in its supervision. In this context, the AFM refers to the European Common Enforcement Priorities (ECEPs) of ESMA. These state that preparers and their auditors must devote special attention to non-financial information in their financial reporting for 2018[13].

The structure of the report is as follows. The findings are stated in section 3. Appendix 1 describes the objectives, the review methodology and the review population. Some examples of good practice are cited in Appendix 2. Appendix 3 contains a list of abbreviations.

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[7] http://integratedreporting.org/news/leading-corporate-reporting-bodies-launch-two-year-project-for-better-alignment/
[8] https://www.ifrs.org/projects/work-plan/management-commentary/
[9] https://www.ifrs.org/projects/work-plan/management-commentary/
[10] https://www.efrag.org/Activities/1807101446085163/European-Corporate-Reporting-Lab-at-EFRAG?AspxAutoDetectCookieSupport=1
[11] https://ec.europa.eu/info/publications/180308-action-plan-sustainable-growth_en
[12] https://www.afm.nl/~/profmedia/files/doelgroepen/effectenuitgevende-ondernemingen/financiele-verslaggeving/2013/themaonderzoeken-engels/listed-companies-integrated-reporting.pdf?la=en
[13] https://www.esma.europa.eu/press-news/esma-news/european-enforcers-focus-new-ifrss-and-non-financial-information-in-issuers%E2%80%99

3. Reporting on various non-financial aspects can and must improve

With the enactment of the Non-Financial Information (Disclosure) Decree (*Besluit bekendmaking niet-financiële informatie*, hereinafter 'the Decree')[14] in March 2017, the Dutch legislature implemented the EU directive (2014/95/EU)[15] on the disclosure of non-financial information and information on diversity ('the EU directive). The Decree obliges large public interest entities (PIEs) with more than 500 employees to report on their policy, risks and performance with respect to environmental, social and employee-related issues, respect for human rights and combating corruption and bribery with effect from the 2017 financial year. PIEs are listed companies, banks, insurers and institutions designated by the government as public interest entities.
In addition, the Dutch legislature has regulated the requirements pursuant to the EU Directive with respect to diversity in the Decree on the disclosure of diversity policy. This Decree applies to large listed companies and is an addition to the statement on corporate governance that listed companies already have to formulate.

The relevant results of this review are discussed in this section. Section 3.1 states our findings with respect to various aspects of non-financial information from the Decree. Section 3.2 then deals with several quality aspects of non-financial information. Section 3.3 deals with the reporting on diversity. The reporting on the UN's sustainable development goals and disclosures on climate change is presented in section 3.4. Section 3.5 finally addresses the involvement of the auditor.

3.1 The Decree is not complied with in all respects

Figure 1 shows that the vast majority of companies report on their policy on the various aspects of non-financial information. The translation of policy into risks, KPIs and results falls short of the desired standard. Employee-related and environmental aspects receive the most attention, with human rights, anti-corruption and bribery receiving the least.
We note that larger[16] companies score better on the various aspects of non-financial information. Analysis by sector moreover presents a varied picture. It is notable that service-providing companies (broadcasters, media, telecommunications and leisure) score highly. The technology, construction and industrial sectors achieve average scores. Companies in the financial sector and retail score below average on the various aspects.

[14] For the Decree, see (only available in Dutch): https://www.rijksoverheid.nl/documenten/besluiten/2017/03/23/staatsblad-100-2017-besluit-bekendmaking-niet-financiele-informatie
[15] http://eur-lex.europa.eu/legal-content/NL/TXT/HTML/?uri=CELEX:32014L0095&from=NL
[16] Measured by market capitalisation and index classification

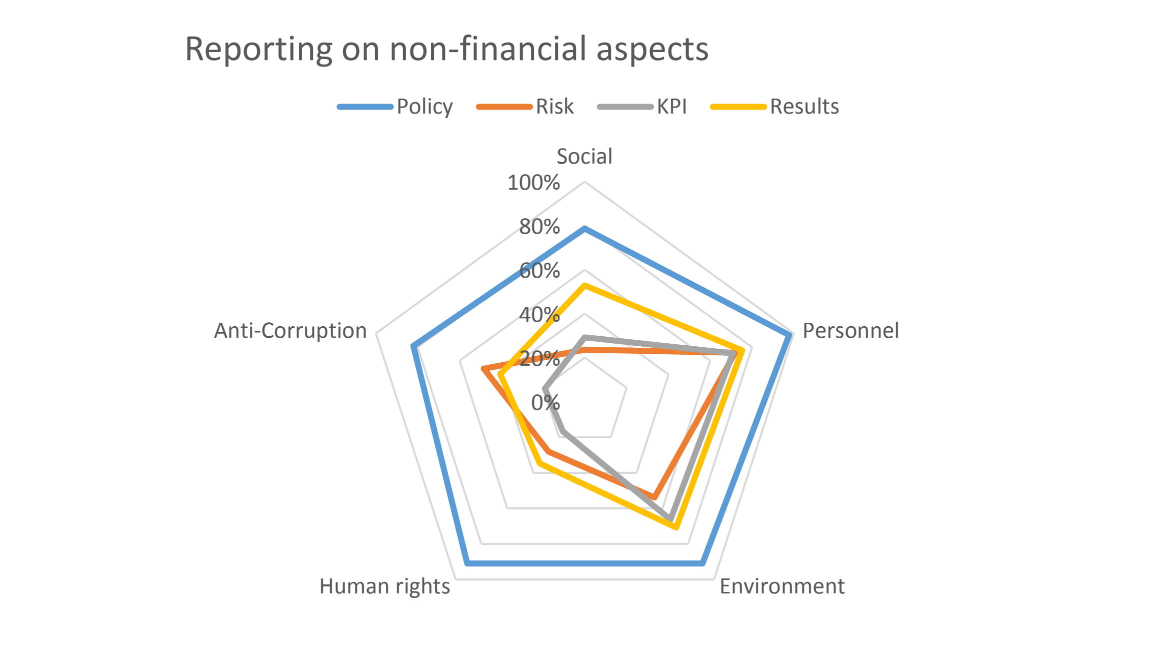


Figure 1: % of companies reporting on policy, risks, KPIs and results

Our report on how companies report on a number of areas is presented below.

Policy

Figure 1 shows that the vast majority of companies (more than 80%) report on policy. Of all the distinguished areas, this is the most widely reported. This reflects the findings of the AFM's survey in 2017[17]. If a company does not have a policy in a certain area, it must explain why this is the case. This explanation is lacking in virtually all cases. An explanation of why there is no policy is required under the Decree[18]. The AFM wishes to remind companies of their obligation to report on this.

Furthermore, the AFM notes that it is important that companies provide insight into how the policy is reflected in their delivered performance. Information on actual results in relation to the formulated policy is often lacking, as is the connection between the policy and the strategy and business model.

Risks

Regarding risks, companies mainly report non-financial risks relating to personnel. Usually, this concerns risks in relation to attracting and retaining personnel in a tight labour market, as well as health and safety aspects.

Over 50% of the companies report risks relating to environmental aspects. These range from compliance with environmental legislation to climate-related risks.

The AFM notes that the descriptions of these risks are often general and not specific.

A company that depends for example on natural raw materials and therefore its business model is highly dependent on the supply of these materials could be expected to devote greater attention to risks arising from the extraction of raw materials, climate change or the (value) chain. This kind

[17] https://www.afm.nl/~/profmedia/files/rapporten/2017/in-balance-part-a-eng.pdf

[18] Decree section 3 (2)

of detail is often lacking. For investors, it is important that risks are described in specific terms. In addition, the connection between risks, the business model and strategy is not reported in many cases. The AFM notes that only a few companies report risks as part of their regular section on risk. An integrated report of financial and non-financial risks would contribute to better understanding on the part of the user, for example regarding the relevance of the reported risks.

Non-financial performance indicators
Under the Decree, companies have to report non-financial performance indicators (KPIs) that are important for the specific business operations of the legal entity.
The review revealed that 70% of the companies report KPIs with respect to personnel and 66% in relation to the environment. Absenteeism, safety incidents and training hours are the most common KPIs reported in relation to personnel. Regarding environmental aspects, the main KPIs reported are energy use, CO_2 emissions and waste production. On the other hand, fewer than 20% of the companies report KPIs for human rights or anti-corruption.
Relevant KPIs enable users to assess and compare the performance of companies, both over time and with other companies reporting comparable KPIs. The review showed that many companies report the number of FTEs as a KPI without making it clear why this KPI is relevant. Without any context, the number of FTEs does not tell a user much, and it is questionable whether this is actually a KPI.
Another example from the review concerned a company that reported the percentage of employees participating in an employee satisfaction survey as a KPI. But the company does not mention what the average score has been, or give any comparison with previous years. A KPI is useful because it shows progress over time that can be evaluated. Giving context and explaining the connection with the company's strategy, policy and objectives clarifies the extent to which a reported KPI is relevant and makes the KPI more useful and comparable over time. Good practice 1 cited in appendix 2 gives an example of an overview in which Arcadis explains the connection between strategy, objectives, KPIs, risks and results in the various relevant areas.

Reporting of results
Most of the non-financial results reported by companies relate to personnel (75%) and the environment (71%). Only a third of the companies report on human rights, even though there is a policy.
Here too, the results could be more specific and the connection with policy is often lacking. One example of common practice is a company that addresses its personnel policy. The company also reports risks associated with personnel (attracting and retaining personnel in a tight labour market). However, the company fails to report the results of its efforts to be an attractive employer.

Human rights
Almost all companies (90%) state that they have a policy on human rights. However, the Decree obliges companies to include a description of the risks and results and develop KPIs so that users of the reporting can assess how companies deal with the issue of human rights.

Anti-corruption and bribery

Over 80% of the companies provide information on their policy in relation to anti-corruption and bribery. 48% of the companies also state the risks. Only 19% report a KPI. The results are reported in 40% of cases.

For companies doing business in regions where there is increased risk of corruption, users may justifiably expect more information on this issue in the management report. Many companies are however still vague on the issue, stating merely that they have a zero-tolerance policy with respect to the combating of corruption and bribery. Specific results are not reported. Also companies that are now or have recently been involved in these issues do not devote any attention to the risks and results, while the issue of corruption is attracting increasing attention from the public, including politicians and supervisors. The AFM called on the audit firms to devote attention to the risks of corruption in 2016, and included this issue in its list of the 10 major risks for its supervision of the financial sector in 2018[19]. The AFM urges companies to address the issues of combating corruption and bribery and improve their reporting on these matters.

Business model

The Decree requires information to be provided on the business model in order to place the non-financial information in the correct context. We are pleased to note that most companies report on their business model. Over 90% provide a description of their business model and around 60% also represent their business model in graphic form.

A positive development is that a description of the key elements of the business model is provided, more often than used to be the case. Moreover, a visual representation makes the business model more comprehensible. The connection between the business model and strategy, objectives and results can be improved in most cases. This also applies to explaining the impact of the business model on the relevant non-financial aspects, such as the environment, personnel and the situation in which the company operates.

3.2 Non-financial information can be more relevant, more comparable and more balanced

The EU guidelines encourage companies to disclose relevant, useful, consistent, comparable and concise information that is necessary for understanding their development, performance and position and the impact of their activities[20].

Relevance

The Decree states that companies must report information that is material. The information reported must be relevant for the users/stakeholders and must be presented so that it can be evaluated in context. The following questions may be of assistance here:

[19] Only available in Dutch: https://www.afm.nl/nl-nl/professionals/nieuws/2016/mrt/corruptierisico-accountantsorganisaties
And https://www.afm.nl/nl-nl/over-afm/blog/top-10-risicos/10

[20] Guidelines for non-financial reporting (methodology for the reporting of non-financial information): http://eur-lex.europa.eu/legal-content/NL/TXT/PDF/?uri=CELEX:52017XC0705(01)&from=EN

- Why is the non-financial information reported important?
- What does the company wish to achieve with the reporting of non-financial information?
- What aspects of non-financial information is measured, and why?

If the non-financial information reported lacks context, the company's results on the various non-financial aspects cannot be properly evaluated.
The review shows that the context is not always included in the reporting. The AFM also notes that the non-financial information reported is often summary and not specific. This applies especially to the aspects of human rights and the combating of corruption and bribery. There is also frequently the impression that the reporting of non-financial information is focused mainly on compliance with the rules.
One example is a company in the auto sector that addresses the environmental aspects of its own business operation, but does not mention the effects of its current business model on the environment. Another example is a company that does not report any social or community aspects although it is involved in mining in various parts of the world with all the local effects and risks that this entails.

A materiality matrix could be of assistance in determining the issues that are material, or relevant. Almost 60% of the companies include a materiality matrix. In the AFM review of a selection of AEX, AMX and AScX companies in 2016, this percentage was 41%[21]. In this matrix, the companies state the issues that are material, both financial and non-financial. A materiality matrix is usually the result of dialogue with the various relevant stakeholders.
For reasons of brevity, it is also positive that companies are aware that omitting non-material information makes their reporting more readable and more comprehensible.

Balanced reporting
The reporting of positive and negative non-financial aspects contributes to balanced reporting. The review shows that this balance is not provided in all cases. The information is often one-sided and positive in nature. For instance, a company that states that its objectives and business model are based on transparency and integrity, the production of sustainable products and reducing its environmental impact. Its reporting on these issues was positive. However, a serious incident that received extensive publicity and led to the initiation of legal proceedings was reported in a legalistic and compliance-oriented manner. The reporting was thus far from being balanced or complete.
Another issue involves sensitive social questions. These are often left unmentioned. This involves for instance matters such as the negative effects of business operations on personnel and the environment, such as the replacing of permanent employees with flexible employees with less rights or the effect of closure of facilities on older people and the transition to providing services online. There are however also companies that do report issues that have not gone well. The example of good practice 2 cited in appendix 2 involves the disclosure by DSM of things that did not go well in 2017. Reporting less positive issues can contribute to more balanced reporting.

[21] https://www.afm.nl/~/profmedia/files/rapporten/2016/in-balance-2016.pdf

Comparability
Companies have progress to make in terms of comparability. Comparative KPIs are often lacking. A single KPI does not tell a user much. Comparative figures are needed in order to be able to evaluate performance and consistency over time. The use of generally accepted frameworks is also important, because this can contribute to better comparability between companies if they use the same frameworks. It is positive that the leading standard setters with respect to reporting (IASB, IIRC, GRI, SASB and CDP) recently started a 2-year harmonisation project designed to achieve better alignment between the various frameworks for non-financial information and reporting. This harmonisation and better alignment could contribute to making non-financial information more comparable between companies.
The EU guidelines state various frameworks that a company can apply, such as the standards for sustainability reporting of the GRI and the <IR> framework of the International Integrated Reporting Council (IIRC). The review shows that 57% of the companies refer explicitly to the GRI standards and 21% to the <IR> framework in their management reports. Companies that apply these frameworks clearly provide more information on non-financial aspects than companies that do not.

3.3 Companies need to improve and broaden their reporting on diversity

Under the Diversity Policy (Disclosure) Decree, large listed companies have to provide[22] information on their policy, targets and results with respect to diversity in their management and supervisory board. The diversity policy may concern age, gender and background in terms of education and professional experience[23]. If a company does not have a diversity policy, it must explain why this is the case. The review shows that 82% of the companies provided a description of their diversity policy; 54% of the companies also reported targets and 74% stated the results, mostly focusing on the actual ratio of men to women. Of the companies that did not report a policy, only a minority (40%) stated that they did not have such a policy. No reason for this was stated in most cases, with one company stating that its policy was still under development. The targets and results reported only occasionally went beyond the ratio of men to women on the management and supervisory board (the statutory requirement of 30%[24]). The AFM calls on companies to improve their reporting on diversity. This should not be restricted to reporting the ratio of men to women, it should also include the degree of diversity in age and professional background in terms of education and experience on the management and supervisory board. Several companies are already doing this.

[22] Only available in Dutch: https://zoek.officielebekendmakingen.nl/stb-2016-559.html
[23] Only available in Dutch: Explanatory Memorandum to the Diversity Policy (Disclosure) Decree https://zoek.officielebekendmakingen.nl/stb-2016-559.html
[24] The legislation on a balanced allocation of seats on management and supervisory boards states that at least 30% of these seats should be held by women and at least 30% by men.

3.4 Companies are increasingly reporting on the SDGs, but application of the TCFD recommendations is falling behind

Reporting on the effects of climate change

Climate change is recognised internationally as one of the most urgent sustainability issues. In relation to annual reporting, in recent years this has led to increasing attention to the effects companies have on climate-related and environmental issues. This concerns direct or indirect emissions of greenhouse gases, energy use, waste processing and water use. The issue is now increasingly drawing attention from the perspective of potential material risks to the future financial performance and results of companies. One of the most practical frameworks concerns the recommendations of the TCFD, a private initiative set up under the aegis of the Financial Stability Board. The final recommendations of this Task Force were published in June 2017.[25]
The review shows that companies do not systematically report on the effects of climate change. Only 14 of the 89 companies (approximately 16%) devote attention to the TCFD recommendations and apply them to some extent. Most companies do not provide information on the financial impact of climate change. There is also no information provided on the robustness of the company strategy given various climate-related scenarios. Many companies state that they will further develop their reporting on the basis of the recommendations in future years. Around a third of these 14 companies are institutions in the financial sector[26]. We wish to remind companies that the TCFD recommendations can be applied in all sectors affected by climate change, from the perspective of both risks and opportunities. Investors are giving increasing importance to the transparency provided by companies in their financial reporting on the effects of climate change. The AFM accordingly urges companies to follow the recommendations of the TCFD (in their management reports).

Reporting on the Sustainable Development Goals

The Sustainable Development Goals (SDGs) [27]of the United Nations are one of the most important reference frameworks used to measure the progress of the international community with respect to the major sustainability issues. As 'an articulation of the world's most pressing sustainability issues', the 17 SDGs are also increasingly being recognised as relevant to the investment strategies of institutional and other investors[28]. They can thus also serve as a context in which to further study the major sustainability issues and their relevance to investors, they are seen as key drivers of global economic growth and they can be used for risk management with respect to sustainability factors. Investors can also compare the so-called positive effect of their investment strategies against these sustainable development goals[29]. This means that the SDGs can (and will) also play an increasingly prominent role in the annual reporting of companies.
The review shows that the SDGs have been quickly adopted by companies. Nearly half of them (49%) already report on the SDGs. All these companies report on a selection of the SDGs. It is

[25] See https://www.fsb-tcfd.org/
[26] This is line with the findings of the status report of the FSB published in September 2018. This shows that 287 of the 513 supporters of the recommendations are financial institutions (mainly asset managers, pension funds and banks).
[27] https://sustainabledevelopment.un.org/sdgs
[28] See UNPRI, *The SDG Investment Case* (October 2017)
[29] See for instance the guidance document of the SDG Impact Measurement working group of the Platform for Sustainable Finance, '*'SDG Impact Indicators. A Guide for Investors and Companies*' (2017).

positive that many companies have done this voluntarily, since the SDGs were only ratified by all member states of the United Nations at the end of 2015. In most cases, the companies disclose only those SDGs to which they say they can make the most contribution. The review shows that companies are still studying what they should report and how they should report on the SDGs. It is important here that the link between the SDG and the strategy, targets and business operations of companies is made more clear and that this is reported. Here too, the AFM urges companies to report in a balanced way and not to be selective.

3.5 An increasing number of companies are having their non-financial information separately audited

As a part of the financial statements, the management report is subject to the statutory audit by the auditor. The auditor has to subject the non-financial information to the same checks as the management report of which the non-financial information is a part. This means that the auditor has to establish whether the non-financial information is presented in accordance with Decree and is consistent with the financial statements. The auditor also has to establish whether the management report contains material misstatements and also state the nature of any misstatements in their auditor's report. This is done on the basis of the knowledge and understanding of the company obtained in the course of the audit. The AFM notes that in various cases in which the Decree and/or the Diversity Decree appears not to have been complied with or not adequately complied with, the auditor has not made any reference to this in their auditor's report[30]. We will contact the auditors and audit firms concerned.

The review also shows that more than 30% of the companies had engaged an auditor in order to provide additional assurance with respect to the non-financial information reported in the management report. Most of these engagements were focused on the testing of the non-financial information against the GRI framework, and not explicitly against the Decree. These procedures are not mandatory and are in addition to the procedures carried out by the auditor in the context of the statutory audit. In almost all cases, this was an assessment (with a limited degree of assurance). This is an increase compared to previous years, in which the percentage was around 20%.

[30] The auditor has to state in this section whether in the light of the knowledge and understanding of the company and its environment obtained in the course of the audit of the financial statements, the management report contains material misstatements, with a statement of the nature of these misstatements (if they exist) (section 2:393 (5)(g) Dutch Civil Code).

Appendix 1 Objectives, methodology and population of the review

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 reviewed the degree of compliance with the Decree and the Diversity Decree. The primary aim of the review was to obtain insight with respect to the degree of compliance with these Decrees in the management reports for 2017. We also hope that the reporting of our findings will further encourage compliance with these Decrees.

The review follows previous reviews of the theme of integrated reporting and the survey in 2017.

Methodology
The review consisted of a desktop review of the 2017 financial reporting of all the companies subject to our supervision and also subject to the Decree and the Diversity Decree. Using check lists, we included questions on:

- 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 EU guidelines;
- reporting on diversity;
- reporting on the TCFD recommendations;
- the decree to which assurance regarding the non-financial information is provided by the external auditor.

Population
Our review encompassed all companies with more than 500 employees which:

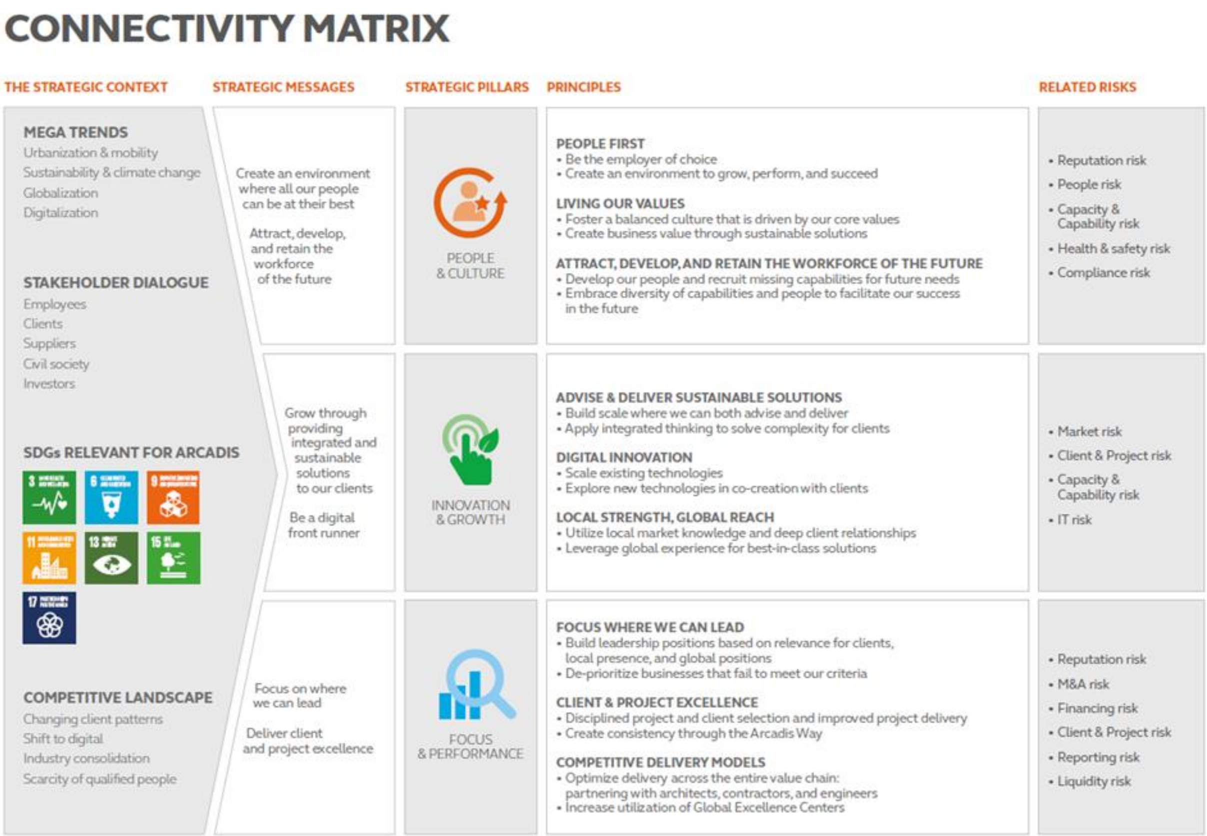
- have the Netherlands as their Member State of origin;
- have issued shares or bonds in a regulated market;
- fall under the scope of the Decree.

There were 89 companies whose financial reporting is subject to the supervision of the AFM under the scope of the Decree in 2018. We reviewed the reporting of these companies on the 2017 financial year.

Appendix 2 Good practices

The AFM hopes that companies will be inspired by the following good practices to make further improvements. The good practices should not be seen as a standard or as the only correct formulation. Other formulations are also possible.

Good practice 1: An overview of the connection between strategy, relevant non-financial aspects, targets, KPIs and results (Arcadis N.V., financial reporting pages 36-37). Arcadis provides two overviews by means of a connectivity matrix of matters including the connection between the megatrends relevant to Arcadis and its strategy, risks, targets, KPIs and results. Comparative figures are also stated for the relevant KPIs. Further qualitative and quantitative information on the items in the overview is provided in the management report. Arcadis is one of the few companies to provide an overview of the relevant financial and non-financial aspects in such a clear and comprehensive manner. This overview makes the information reported more readable and more comprehensible.



		MATERIAL TOPICS	KEY PERFORMANCE INDICATORS	STRATEGIC TARGETS 2018 - 2020 (see page 34)	RESULTS 2017	RESULTS 2016	PAGE
PEOPLE & CULTURE	17	Employee engagement	Number of employees (headcount as at 31 December)	–	27,327	27,080	42
			Employee engagement score (on a scale of 0 - 4)	Staff engagement score improving annually	3.03	3.07	43
	18	Talent management & learning and development	Voluntary turnover rate (as % of total staff)	Voluntary staff turnover < market	14.6%	15.0%	43
			Identified leadership potential rate (retention %)	–	94%	90%	43
	21	Diversity and inclusion	Females in total workforce (as % of total staff)	–	37%	36%	45
	22	Health and safety	Total Recordable Case Frequency (TRCF, per 200,000 work hours)	–	0.26	0.26	46
			Lost Time Case Frequency (LTCF, per 200,000 work hours)	–	0.11	0.10	46
	34	Business ethics	Employees passing Code of Conduct training (in %)	–	97%	94%	49
			Number of AGBP alleged breaches (including near misses)	–	76	99	49
			Investigated AGBP alleged breaches	–	100%	100%	49
	35	Tax policies and compliance (paying fair taxes)	To be determined (from 2018 onwards)	–	–	–	51
	36	Privacy (and personal data protection)	Number of appointed privacy officers under the Privacy Codes	–	10	0	52
	37	Risk management framework	Number of internal audits conducted in the year	–	24	32	52
	15	Brand awareness	Brand awareness score (from 2018 onwards)	Top-five brand awareness in markets we serve	–	–	52
	16	Client experience	Client experience score (from 2018 onwards)	Top-quartile performance for client experience	–	–	53
INNOVATION & GROWTH	6	Organic revenue growth	Organic revenue growth (net revenues, in %)	Surpass GDP growth in our markets	1%	-4%	60
			Book-to-bill ratio (net revenues)	–	1.02	0.94	60
			Revenue growth Key Clients (net revenues, in %)	Revenue growth for key clients two times overall growth	17%	6%	61
			Revenue growth Big Urban Clients (net revenues, in %)	–	6%	14%	64
	14	Innovation and digitalization	% of revenues using BIM level 2 (from 2018 onwards)	Digital adoption by our people and clients	–	–	65
			% of revenues invested in digital technologies (from 2018 onwards)	–	–	–	65
			Arcadis Way implementation progress (as % of net revenues)	–	31%	3%	66
	26	Energy and emissions – carbon footprint	Arcadis' carbon footprint (MT CO_2 per FTE)	–	3.34	3.50	68
	32	Environmental non-compliance	Number of identified non-environmental compliances	–	none	none	69
	33	Climate change	% of revenues that relate to relevant SDGs (from 2018 onwards)	Significantly contribute to UN Sustainable Development Goals	–	–	70
FOCUS & PERFORMANCE	1	Direct economic value generated	Gross revenues (in € millions)	–	3,219	3,329	78
	2	Direct economic value distributed	Net Income from Operations per share (EPS, in €)	–	1.18	1.08	79
			Dividend per share (DPS, in €)	30 - 40% of Net Income from Operations	0.47	0.43	79
	5	Profit & loss performance	Operating EBITA margin (as % of net revenues)	Operating EBITA margin trending to 8.5% - 9.5% of net revenues by 2020	7.6%	7.1%	80
			Net income from operations (in € millions)	–	101	91	81
	8	Balance sheet performance	Net working capital (as % of gross revenues)	Net working capital < 17% of gross revenues	16.9%	17.5%	82
			Days Sales Outstanding (DSO)	DSO < 85 days	88	91	82
			Return on invested capital (ROIC, in %)	Return on invested capital > 10%	7.3%	6.8%	82
			Net debt to EBITDA ratio (average)	Net Debt/EBITDA ratio between approximately 1.0 and 2.0	2.3	2.5	82
	9	Cash flow performance	Free cash flow (in € millions)	–	98	80	83

Good practice 2: Reporting matters that did not go well in 2017 (Koninklijke DSM N.V., financial reporting pages 132-133). In this paragraph of its management report, DSM states the things that did not go so well in the reporting year with respect to personnel, the environment and financial performance. Most companies did not do this at all, or only in the most summary fashion. DSM is a positive exception in this respect.

What still went wrong in 2017

DSM is always trying to improve, but sometimes things still go wrong. Here we share the most significant incidents of 2017 across all three dimensions of People, Planet and Profit. This includes health, safety, environment, and security incidents as well as what we have learned from business that has not developed as planned.

Preventing repeat problems means understanding each incident to the best of our ability. When a problem occurs, DSM first tries to repair any damage, take care of injuries and act with compassion. We also trigger an improvement cycle (see 'Health & wellness' on page 35). This includes investigating root causes and trying to eliminate them. We put new requirements or operating procedures in place as needed. For example, in DSM Nutritional Products, in response to the incidents with forklifts in 2017, a new business group standard on internal transport was developed and introduced.

DSM applies zero tolerance to violations of the DSM Code of Business Conduct (see page 108). DSM does not disclose any personal details in cases involving individuals.

In line with our reporting policy, this overview includes incidents and some serious near-misses. Near-misses are cases that did not result in injury, illness or damage but could have done so. Even when crisis is averted, it is our responsibility to learn and do better.

People

Fatal incidents

Tragically, in September 2017 there was a fatal incident at our site in Augusta (Georgia, USA). One contractor passed away, another was severely injured and a third suffered less severe injuries in the same incident. The root causes have been thoroughly investigated and the lessons learned are being implemented. We are committed to the safety of all workers and will continue to pay close attention to contractor safety. DSM is supporting the affected families.

Incidents involving falls

At DSM Nutritional Products in Sisseln (Switzerland), an operator missed his footing on the top step of a four-step ladder. He landed on his back, which resulted in swelling. He also landed on the back of his head, causing a slight headache. At the same place but in a different incident, a contractor came down a ladder and lost his balance on the second to last step. He stumbled backwards, and hit the top of a hand lever of a valve, resulting in a serious flesh wound.

At DSM Nutritional Products in Liaocheng (China), a contractor fell from a 1.8 m-high molding rack while climbing a scaffold of an office building that was being constructed. The contractor suffered severe head injuries.

At DSM Dyneema in Heerlen (Netherlands), an employee broke his ankle by falling down the stairs in a hotel where he attended a training.

Incidents involving forklift trucks

At DSM Nutritional Products in Grenzach (Germany), a pallet truck ran over the top of an operator's shoe. The operator's foot was broken in several places.

At DSM Nutritional Products in Campo Grande (Brazil), a contractor was struck by a moving forklift. He sustained fractures and a small displacement to an ankle.

At DSM Engineering Plastics in Togliatti (Russia), an operator stepped backwards and his foot was broken by the wheel of a forklift.

Incidents with allergic reactions

At DSM Nutritional Products in Ueberlandia (Brazil), an employee had an allergic reaction during venom extraction resulting from sensitization.

At DSM Nutritional Products in Sisseln (Switzerland), an operator who worked for four years in the Rocephin plant had an acute allergic reaction during shutdown revision work. The operator's allergy has been confirmed by extensive allergy testing.

Other safety incidents

At DSM Nutritional Products in Village-Neuf (France), hot water spilled onto an operator's abdomen, resulting in a second-degree burn.

At DSM Nutritional Products in Sisseln (Switzerland), a sample exploded in the lab due to overpressure. A lab technician suffered an eye injury despite wearing safety glasses.

At DSM Engineering Plastics in Geleen (Netherlands), a contractor employee got his finger caught between the door handle and the steel pillar of the building wall, leading to a permanent impairment.

At DSM Nutritional Products in Jaguaré (Brazil), an employee performing a repair inside a mixer was almost engulfed by hundreds of kilograms of product, because the right procedures for safeguarding equipment before starting the work (lock-out/tag-out/try-out) had not been followed. Fortunately, the employee did not have any injuries.

At DSM Nutritional Products in Lalden (Switzerland), a closed ammonia cylinder in an experimental laboratory set-up exploded due to overpressure, caused by failure of an electrical heating element (uncontrolled overheating). The incident resulted in only physical damage. Fortunately, no one was injured because the failure occurred overnight when nobody was present in the laboratory.

Privacy incidents
In November, some employees received an unexpected email from Uber. Many reported it as a phishing attempt. An investigation revealed that access to the travel and expense system was shared with Uber by a DSM employee in the US. DSM and Uber had agreed upon an exchange of data of US employees; however, the DSM employee accidentally provided access to data for all employees. Immediate actions were taken to close the link and Uber confirmed it deleted the DSM data immediately. Actions have been taken to prevent such a disclosure in the future. The breach was reported to the Dutch Privacy Authority, as well as one other incident related to phishing.

Planet

At our site shared by DSM Nutritional Products and DSM Food Specialties in Xinghuo (China), one of our production plants had to be stopped for three months because of odor complaints from a nearby residential area. An off-gas treatment system is currently being installed. In the meantime, the plant is running at reduced capacity.

DSM experienced several minor incidents that led to a loss of primary containment from our installations. For example, at our DSM Food Specialties site in Delft (Netherlands) nitric acid was released from the installation during maintenance work and at our DSM Dyneema site in Heerlen (Netherlands) the hazardous content of a vessel leaked on the floor due to a valve failure. In all cases, an immediate cleanup prevented any impact to the environment or harm to people.

Profit

At DSM Food Specialties in Seclin (France), a contamination was identified that required cleaning of the production line, causing a loss of production volume for several days. After cleaning the plant was restarted without further problems.

DSM Resins & Functional Materials incurred higher supply costs globally, caused by shortage of raw material.

At DSM Resins & Functional Materials in Waalwijk (Netherlands), raw material quality problems caused the loss of three days' production volume.

At DSM Nutritional Products in Brazil, a quality complaint has resulted in a financial compensation for the customer.

Due to the decision to shut down a power plant at DSM Nutritional Products in Jiangshan (China), employees stopped operations to protest against this decision. This caused a loss of production of several days.

At DSM Nutritional Products at Village-Neuf (France), a dispute with employees concerning the calculation of working hours was resolved by ruling of the industrial court of Mulhouse, resulting in an additional payment of wages.

Several employees received emails that were supposedly sent by the CEO, urgently asking them to transfer money to an external bank account. Thanks to the alertness of these employees, no other action was required after reporting these mails to our Information Security office.

A regional outbreak of avian flu in China caused people to eat less poultry meat than usual, resulting in temporarily lower market demand for the animal nutrition business of DSM Nutritional Products in China.

The animal nutrition business of DSM Nutritional Products in Brazil experienced the consequences of a serious third party reputation incident in the downstream value chain, often referred to as the 'weak meat' scandal.

DSM Nutritional Products (Personal Care business) suffered a production loss of several days caused by a 'force majeur' at an important raw material supplier.

Appendix 3 List of abbreviations

AEX - Amsterdam Exchange Index

AMX - Amsterdam Midcap Index

AScX - Amsterdam Smallcap Index

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

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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