

# CORPORATE GOVERNANCE

TKH Group N.V. a public limited company under Dutch law and voluntarily applies the limited two-tier entity regime. The management of the company lies with the Executive Board under the supervision of the Supervisory Board. The Executive Board and the Supervisory Board are responsible for the Corporate Governance structure at TKH and compliance with the Dutch Corporate Governance Code ('Code').

## CORPORATE GOVERNANCE AT TKH

### CORPORATE GOVERNANCE STRUCTURE

The Executive Board and the Supervisory Board attach great importance to compliance with the principles of integrity, accountability and transparency in the management and oversight of the company. The Governance structure at TKH is based on Book 2 of the Dutch Civil Code, the company's articles of association, the Code and various internal regulations. The main outlines of TKH's Corporate Governance structure, as well as compliance with or derogation from the principles and provisions, were discussed in the 2018 General Meeting of Shareholders. This section provides a substantiation of the most relevant principles and/or provisions and an explanation of the subjects in the Code from which TKH deviates. Additional information on TKH's Corporate Governance is available on the website.

### 1. LONG-TERM VALUE CREATION

The strategy of TKH is outlined in the report of the Executive Board. Based on the IIRC value-creation model, the way in which the strategy leads to long-term value creation for its stakeholders is detailed. This provides insight into the mutual relationships involved in the implementation of the strategy and the operations, as well as the capital employed to this end. Non-financial aspects of business operations, such as environmental, social and personnel matters as well as risk-management aspects, are carefully considered. Given that the aspects from the Code relating to long-term value creation are covered in detail in the report of the Executive Board, we refer to that report for an explanation of these provisions.

### 2. EFFECTIVE MANAGEMENT AND SUPERVISION

#### EXECUTIVE BOARD

##### Tasks, responsibilities and composition

The Executive Board is charged with managing the company. The Board develops a vision of long-term value creation and formulates an

appropriate strategy, taking account of the acceptable risk profile. The Executive Board is responsible for achieving predefined goals, results development, financing of the company and corporate social responsibility issues that are relevant to the company, such as the environment and social and personnel matters. The Executive Board involves the Supervisory Board early on when formulating and adjusting the strategy and is accountable to the Supervisory Board for its actions.

The Executive Board is also responsible for compliance with all relevant primary and secondary legislation and for managing the risks associated with the company's activities through the appropriate implementation of internal risk management and auditing systems. This involves surveying and analyzing the risks related to the strategy and the activities of the company, establishing the risk appetite and defining the measures to be taken to counter the risks. The Executive Board is accountable to the Supervisory Board for the effectiveness of the set-up and the functioning of the internal risk-management and risk-control systems.

## COMPOSITION

The composition and size of the Executive Board are based on TKH's corporate profile and strategy. The Executive Board comprises three members and is composed in such a way that the necessary expertise, background and competences are present to ensure the tasks are fulfilled adequately. The composition of the Executive Board represents a good balance in terms of diversity of background, skills, work experience and age. The Executive Board currently comprises three male members. There is a best effort obligation for larger companies to have the Executive Board composed of at least 30% women and at least 30% men, insofar as these seats are occupied by natural persons. This is not being achieved at the moment. For any future vacancies, gender diversity is a key element, in addition to the quality, expertise and experience of the candidate. TKH has set itself the target of achieving a more balanced spread over the medium-term in terms of gender diversity within the group strategic management. This group plays a key role in the development of TKH Group and acts as a sounding board for the Executive Board, as well as being relevant when it comes to succession planning.

The Executive Board has regulations that describe its tasks, as well as its relationship with various forums, including the Supervisory Board, the shareholders and holders of depositary receipts, the General Meeting of

Shareholders and the employee representation body. For practical reasons, the Executive Board has an internal allocation of duties, aimed at the responsibilities of the individual members for specific functional and business areas.

The Executive Board ensures a balanced and effective decision-making process, while taking account as far as possible of the interests of the stakeholders. Providing clear information in good time is inextricably linked to this.

The Executive Board, both as a whole and each individual member, is independently authorized to represent the company.

The members of the Executive Board are appointed by the General Meeting of Shareholders by binding nomination of the Supervisory Board. With regard to the appointment, suspension or dismissal of members of the Executive Board, we refer to provisions in the company's articles of association.

## Integrity and ethics

Integrity and ethics form the basic principles of the culture TKH strives for. Any form or appearance of a conflict of interest between the company and the Executive Board shall be avoided, and this shall represent exemplary conduct for the rest of the organization. TKH has a code of conduct that describes the preconditions for daily behaviour. Every employee is given a copy of the code of conduct and is expected to behave accordingly. In outline terms, the Code is discussed annually in the meeting between the Executive Board, the Supervisory Board and the Central Works Council. TKH also applies different systems to thoroughly embed risk awareness in the organization to prevent and manage risks as far as possible. In meetings with the responsible managers and controllers, presentations and training are used to focus attention on ethics and integrity. The Executive Board is alert to signals of (suspected) wrongful conduct and irregularities and has established a procedure to allow the reporting of (suspected) wrongful conduct and irregularities and follows up conscientiously on these reports.

TKH endorses the principles and underlying best practice provisions set out in the Code as they relate to the Executive Board and applies them, unless otherwise stated below.

- The provision with respect to the maximum term of appointment of four years (2.2.1) will not be followed for two of the three Executive Board members. Mr. J.M.A. van der Lof MBA has been employed by TKH since 1985 and was appointed to the Executive Board in 1998, well before the Code came into force. Mr. E.D.H. de Lange MBA has been employed by TKH since 1998 and was appointed to the Executive Board in 2008. TKH's point of view with respect to them both is that existing contractual agreements cannot be broken and that existing contracts of employment are respected and that limiting the term of appointment is not appropriate. For new Executive Board members to be appointed, a maximum term of appointment of four years is observed in compliance with the best-practice provision for such cases. The best-practice provision applies to Mr. H.J. Voortman MSc. At the 2018 General Meeting of Shareholders, Mr. Voortman was appointed to the Executive Board by the General Meeting of Shareholders for a term of four years by binding nomination by the Supervisory Board. The appointment is for a period of four years from the time of closing of said General Meeting of Shareholders until the closing of the Annual General Meeting of Shareholders in 2022.
- In terms of the diversity policy for the Executive Board, the current composition deviates from the target figure for a balanced distribution of seats between men and women in the Executive Board. TKH shall continue to make every effort to increase gender diversity within the Executive Board by expressly factoring this in at the selection and recruitment process, as well as during talent development within the context of succession planning.

### INTERNAL AUDIT

TKH has set up an Internal Audit service, comprising the Director Internal Audit assisted by the Internal Auditor. The Director Internal Audit falls under the responsibility of the Executive Board and has direct access to the external auditor and to the Audit Committee. The Supervisory Board maintains oversight of the Internal Audit function, with this oversight being carried out for pragmatic reasons by the Audit Committee. One task of the Internal Audit function is to assess the set-up and the functioning of the internal risk management and control systems as per the COSO Framework.

The provisions that relate to the Internal Audit service and function are endorsed by TKH and as such are implemented in the organization. Where necessary, the internal rules have been brought into line with these provisions. The independent position of the Internal Audit department is a permanent point of attention. In order to ensure that the Internal Audit function meets the highest standards and to guarantee independence and objectivity, the IIA standards (of the Institute of Internal Auditors in the Netherlands) are used as a guideline.

### SUPERVISORY BOARD

#### Tasks and responsibilities

The Supervisory Board has the task of overseeing the way in which the Executive Board executes the strategy for long-term value creation and the general day-to-day business of the company and its affiliated companies. The Supervisory Board also addresses the effectiveness of the company's internal risk management and control systems and the integrity and quality of the financial reporting. In performing its task, the Supervisory Board takes into account corporate social responsibility issues that are relevant to the company and supervises the relationship of the Board with shareholders. The Supervisory Board regularly discusses the strategy, the execution of the strategy and the most important related risks, and provides guidance to the Executive Board. In performing its task, the Supervisory Board is guided by the interests of the company and its affiliated businesses and takes into account the relevant interests of all stakeholders.

The Supervisory Board ensures that it functions effectively. As per the Code, the Board has installed a Selection and Appointments Committee, a Remuneration Committee and an Audit Committee to prepare the Board's decision-making process. It remains primarily the responsibility of the Supervisory Board as a body and the members of the Supervisory Board as individuals to obtain information and form an independent judgement.

The allocation of tasks within the Supervisory Board, as well as the way of working of the Board, are established in its by-laws. The by-laws also include rules on handling actual or potential conflicts of interest of members of the Supervisory Board in relation to TKH. TKH also has a set of rules governing possession of and transactions in securities by

members of the Executive Board and the Supervisory Board other than those issued by their 'own' company. Separate rulebooks have also been drawn up for the three committees that set out the role and responsibility of the committee, its composition and the way in which it carries out its task. The rules as well as the profile reflect the principles and best practice provisions to the extent that these are relevant to and applied by TKH. Each committee reports to the Supervisory Board on its deliberations and findings.

### Composition

The composition of the Supervisory Board is such that the necessary expertise, background, competencies and independence are present to perform the tasks properly. The Board has drawn up a profile, taking into account the nature and activities of TKH Group. The composition of the Supervisory Board is such that the members are able to operate critically and independently of one another, the Executive Board and any particular interests.

To ensure the independence of the Supervisory Board, the Board complies with the independence criteria as stated in the Code and that which is stated elsewhere, including in the profile of the Supervisory Board.

Among other matters, the profile addresses the aspects that are relevant to the company with respect to diversity in the composition of the Supervisory Board and the specific objectives pursued by the Supervisory Board in terms of diversity. At the moment, there is diversity in the Supervisory Board in terms of representation of both men and women and representation of more than one nationality. Also expertise, competencies and backgrounds are well represented. Further information about the composition of and diversity within the Supervisory Board is provided in the 'Report of the Supervisory Board'. The current composition of the Supervisory Board is the point of departure for the annual evaluation by the Supervisory Board.

### Appointment, suspension or dismissal

With regard to the appointment of members of the Supervisory Board, we refer to TKH's articles of association. TKH endorses the principles and underlying best-practice provisions as set out in the Code as they relate to the Supervisory Board and applies them.

### EXTERNAL AUDITOR

At the recommendation of the Supervisory Board, the General Meeting of Shareholders endorsed the appointment of Ernst & Young Accountants LLP ('EY') as independent auditor for the financial years 2019 and 2020. The Audit Committee advised the Supervisory Board on this nomination and submitted a proposal, after which the Supervisory Board nominated the appointment of EY as independent auditor to the shareholders.

The Supervisory Board oversees the performance of the external auditor, taking advice from the Audit Committee, which evaluates the performance of the external auditor annually and advises on the nomination of the external auditor. The Audit Committee shall meet with the external auditor as often as it considers necessary, but at least once a year, without the Executive Board being present.

TKH endorses the principles and underlying best practice provisions as set out in the Code as they relate to the external auditor and applies them.

### REMUNERATION

The remuneration policy for the Executive Board aims at providing a competitive compensation package to attract, motivate and retain qualified managers of a publicly listed company, while considering TKH's size and unique characteristics.

Due to the implementation of the legislative proposal for a revised EU Shareholder Rights Directive, the remuneration policy of both the Executive Board and the Supervisory Board has been assessed against the provisions of this act. The remuneration policy will be submitted to the 2020 Annual General Meeting for adoption.

The remuneration of the Supervisory Board is not dependent on the results of the company and reflects the time spent and responsibilities of the position. Compensation for the Supervisory Board was most recently determined by the 2019 General Meeting of Shareholders.

With respect to the provisions in the Code relating to the remuneration policy and the remuneration report, we refer to the remuneration policy and remuneration report published on the TKH website, for an explanation of these provisions. The remuneration report is also included in the annual report.

TKH endorses the principles and underlying best-practice provisions as formulated in the Code and applicable to remuneration, and applies them unless otherwise stated below.

- The Executive Board has a share purchase scheme in place and no option scheme. The share plan involves a financial compensation for the Executive Board since the individual members must buy the same number of shares as the number that are awarded ‘free of charge’ within the framework of the plan. Due to this financial compensation for the members of the Executive Board, it is stipulated that the shares must be held for at least three years (3.1.2. v.i.). Given that this scheme requires a private investment obligation of the individual members of the Executive Board, the Supervisory Board is of the opinion that it is fair and reasonable that a term of three years is applied.

### GENERAL MEETING OF SHAREHOLDERS

A General Meeting of Shareholders is held annually. Extraordinary General Meetings are held as often as considered desirable by the Executive Board or Supervisory Board and also as often as requested in writing to the Executive Board or Supervisory Board by shareholders and/or holders of depositary receipts, representing at least 10% of the issued capital, with a specification of the topics to be discussed.

TKH endorses the principles and underlying best practice provisions as set out in the Code as they relate to the shareholders and applies them. TKH follows the provision relating to stipulating a response time as stated in the Code but at the same time follows with great interest the developments of the wider public debate that has arisen regarding the functioning and effectiveness of the measures that companies can take to respond adequately to proposals for fundamental strategy changes that do the most justice to long-term value creation and the interests of all stakeholders.

### DEPOSITARY RECEIPTS OF SHARES

Stichting Administratiekantoor TKH Group (‘Stichting Administratiekantoor’) holds ordinary shares in the company. In exchange for these shares Stichting Administratiekantoor issues depositary receipts of those shares. The voting rights to the shares are vested in Stichting Administratiekantoor. If requested to do so by the holders of depositary receipts, Stichting Administratiekantoor gives them authorization to cast

a vote, to the exclusion of Stichting Administratiekantoor, on the shares for which the holder has depositary receipts at a General Meeting of Shareholders specified in the proxy. The authorization is unrestricted and is therefore not subject to any exchangeability limit. Stichting Administratiekantoor is not required by law (Article 2:118a of the Dutch Civil Code) to grant the proxy and may withdraw a proxy that has been given if a) a hostile public offer is announced or made or is expected to be made, b) one or more persons possess at least 25% of the depositary receipts and/or shares, or c) in the opinion of Stichting Administratiekantoor the voting right of a holder of a depositary receipt is fundamentally in conflict with the interest of the company. If Stichting Administratiekantoor avails of one of these possibilities, it must notify the holders of depositary receipts stating reasons.

TKH considers the issue of depositary receipts of shares as an important measure to safeguard the interests of shareholders, holders of depositary receipts and other stakeholders. This means that the company’s intellectual property and thus also its commercial interest are protected, which is also important in terms of the long-term value creation for our stakeholders. Although the Code states that the issue of depositary receipts is not intended as a protective measure, TKH expressly chooses to take this form of protective measure and acts accordingly as per the applicable law as stated in Art. 2:118a of the Dutch Civil Code. This is in derogation to principle 4.4 of the Code.

No depositary receipts have been issued for the cumulative preference financing shares, the cumulative preference protection shares, the priority shares or the registered shares. Further information about TKH’s capital structure as per provision 4.2.6 of the Code and in the sense of the Decree regarding article 10 of the Takeover Directive, is included in the Section ‘The TKH share’ and in the notes to the company financial statements.

### Executive Committee of Stichting Administratiekantoor

The Executive Committee of Stichting Administratiekantoor consists entirely of independent members. The Executive Committee does not include any (former) executive directors, (former) non-executive directors, employees or permanent advisers of the company.

A member of the Stichting Administratiekantoor Executive Committee may

be appointed for two periods of four years and thereafter for a period of two years, followed by one more period of two years. Reappointment after eight years is substantiated in the Report of the Stichting Administratiekantoor Executive Committee. The Stichting thereby follows the provisions of the Code.

### Exercising voting rights

TKH's articles of association allow the Executive Board to decide that shareholders may exercise their voting rights before the General Meeting of Shareholders by electronic means. TKH offers shareholders and depositary receipt holders the possibility of issuing a proxy to vote in accordance with the e-voting system prior to the General Meeting of Shareholders.

Stichting Administratiekantoor exercises the rights attached to the shares in such a way that the interests of the company and its associated companies and all its stakeholders are protected as well as possible, and does not focus primarily on the interests of the holders of depositary receipts when exercising its voting rights as defined in best-practice provision 4.4.5 of the Code. The Stichting thus exercises its voting right in line with legal provision 2:118a, as described in more detail above under 'depositary receipts of shares'. In the General Meeting of Shareholders, the Executive Committee of Stichting Administratiekantoor may on request issue a statement of its intended voting conduct. This method of exercising its voting rights in relation to the shares derives from the function of 'depositary receipts of shares' as described above.

### CORPORATE GOVERNANCE STATEMENT

This is a statement concerning Corporate Governance as referred to in article 2a of the Decree on the content of the report of the Executive Board (the 'Decree'). The information required to be included in this Corporate Governance statement pursuant to articles 3, 3a and 3b of the Decree can be found in the following chapters, sections and pages of the Report of the Executive Board 2019 and are deemed to be included and repeated in this statement.

- The Corporate Governance Code applies to TKH. The information concerning compliance with the principles and best practice provisions from the Dutch Corporate Governance Code as required by article 3 of the Decree can be found in the chapter on 'Corporate Governance'.

- The information concerning the main features of the internal risk management and control system relating to the financial reporting process of the TKH Group as required by article 3a sub a of the Decree can be found in the chapter on 'Risk Management'.
- Information regarding the functioning of the General Meeting and the main authorities and rights of the shareholders and holders of depositary receipts in shares as required by article 3a sub b of the Decree, can be found in the sections on 'Corporate Governance' and 'The TKH Share'.
- The information regarding the composition and functioning of the Executive Board, the Supervisory Board and its Committees as required by article 3a sub c of the Decree can be found in the chapters 'Corporate Governance', 'Report of the Supervisory Board' and 'Developments & Results'.
- The diversity policy regarding the composition of the Executive Board and the Supervisory Board, including the policy objectives, as well as the way in which the policy has been executed and the results of this over the last financial year (Art. 3a sub d of the Decree), as well as the measures to achieve the envisaged situation and over which term, are described in the sections 'Corporate Governance', 'Developments & Results' and 'Report of the Supervisory Board'.
- The information referred to in the Takeover Directive (Article 10) as required by article 3b of the Decree can be found in the chapters on 'Corporate Governance' and 'The TKH Share' and in the notes to the consolidated and company financial statements.

This Corporate Governance statement can also be found on TKH's website.