

# Corporate governance

Corporate governance is about the Management Board's direction of Alliander, the supervision of the Management Board, and about how we report on our performance and compliance. Alliander attaches great importance to good corporate governance. It is a prerequisite for the efficient and effective achievement of the objectives we have set and ensures adequate management of risks and careful consideration of the interests of all stakeholders of Alliander.

Related material issues in this chapter

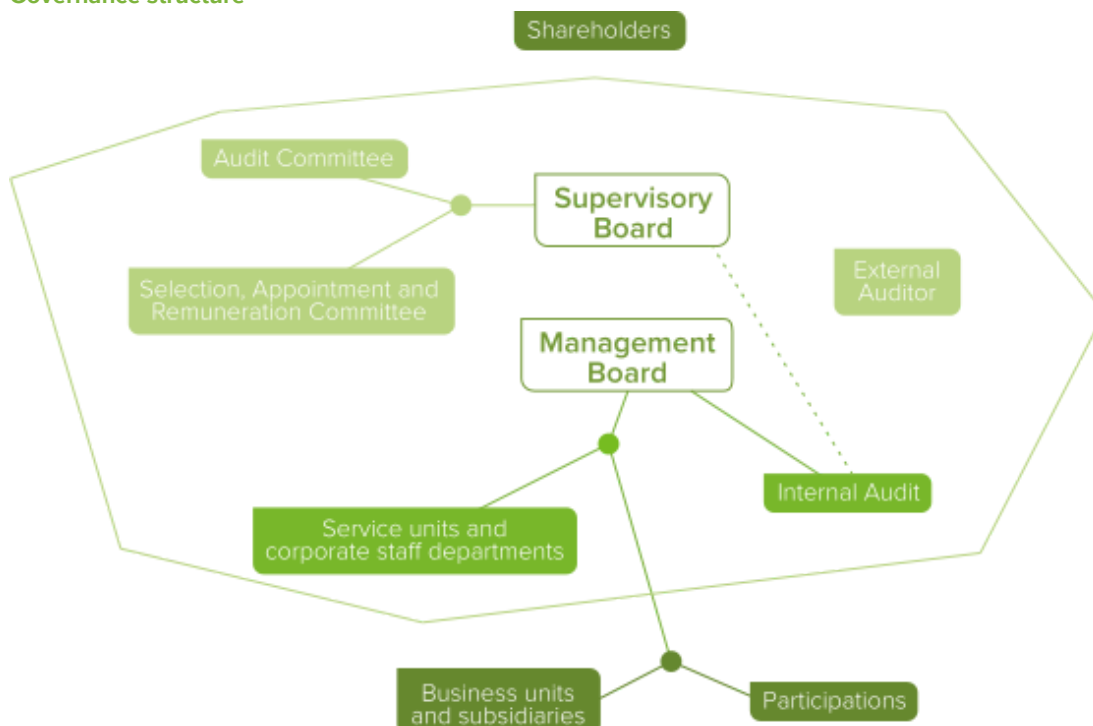
📌 Corporate governance and business ethics

The Dutch Corporate Governance Code (the 'CG Code') contains governance rules for listed companies. Since all shares in the company are held by Dutch provinces and municipalities, Alliander is not required to comply with the CG Code. Nevertheless, given that concepts such as long-term value creation, transparency and integrity are central to the CG Code, Alliander attaches great importance to it, which is why the company complies with the code voluntarily.

## Corporate governance structure in outline

Alliander is a company with full statutory two-tier status. All shares are held by four Dutch provinces and 72 Dutch municipalities. Alliander has a two-tier management structure, with a Management Board and a Supervisory Board. The Management Board directs Alliander in its day-to-day operations; the Supervisory Board oversees the Management Board and its management of the company's business. Each board operates independently of the other and each is accountable for the performance of its duties to the General Meeting of Shareholders.

### Governance structure



Alliander's corporate governance is based on Book 2 of the Dutch Civil Code, the CG Code, Alliander's articles of association, and various sets of internal rules and by-laws. The Dutch Gas Act and the Dutch Electricity Act 1998 also contain various provisions that influence the governance of Alliander and its affiliated enterprises. In addition, based on its core values, Alliander has formalised a number of key rules of behaviour and requirements in a code of conduct (including the Guideline for the Prevention of Market Abuse) and a whistleblower policy.

The articles of association, various sets of rules and by-laws and other corporate governance documentation have been posted on the [Alliander website](#). The website also offers a complete summary of Alliander's standpoints relating to all principles and best practices from the CG Code (the 'comply or explain' summary).

## Management Board

### Tasks and responsibilities

The Management Board is responsible for directing and managing Alliander and thus for achieving the corporate objectives and for the strategy and policy, financing, development in results, and the social aspects of doing business. In addition, the Management Board is responsible for compliance with all relevant legislation and regulations and for controlling the risks associated with the business activities through the operation of adequate internal risk management and control systems. With Alliander's strategy, the Management Board focuses on long-term value creation, taking into account the interests of stakeholders. The Management Board has set out values that contribute to a culture that focuses on long-term value creation.

In addition to their collective responsibility for the management of the company, individual members of the Management Board are assigned specific tasks and responsibilities. The division of duties is determined (and revised if necessary) by the Management Board, subject to approval by the Supervisory Board. The Management Board as a whole and the individual Management Board members have the authority to represent the company.

### By-laws

In addition to the statutory regulations and articles of association, the Management Board must comply with its own by-laws, which set out the rules regarding the divisions of duties, procedures and decision-making, among other matters. The by-laws furthermore contain provisions with regard to conduct and culture, the handling of information and the manner in which this is provided to the Supervisory Board, and on how to deal with existing or potential conflicts of interest.

### Appointment and dismissal

The members of the Management Board are appointed by the Supervisory Board for an indefinite period. The Supervisory Board also has the power to suspend or dismiss members of the Management Board.

## Supervisory Board

### Tasks and responsibilities

The Supervisory Board supervises the manner in which the Management Board pursues the strategy on long-term value creation. The Supervisory Board regularly discusses the strategy, its implementation, and the main risks, while also explicitly examining the effectiveness of the company's internal risk management and control systems and the integrity and quality of financial reporting. Furthermore, the Supervisory Board supervises the policy of the Management Board and the general course of affairs within Alliander and its affiliated companies, and it fulfils the role of adviser and employer of the Management Board. The Supervisory Board of Alliander also acts as the Supervisory Board of network operator Liander N.V.

In the performance of its duties, the Supervisory Board – like the Management Board – is led by the creation of long-term value at Alliander and the affiliated enterprises and carefully weighs up the interests of the stakeholders. The Supervisory Board also gives due consideration to the social aspects of entrepreneurship that are relevant to the company. The Supervisory Board is jointly responsible for the performance of its duties.

### By-laws

In addition to the statutory regulations and articles of association, the Supervisory Board must comply with its own by-laws, which set out the board's duties and powers, composition, and procedures, among other matters. The by-laws furthermore contain provisions with regard to the Supervisory Board's interactions with the Management Board, the shareholders and the Works Council, and on how to deal with existing or potential conflicts of interest.

### Appointment and dismissal

New members of the Supervisory Board are nominated by the Supervisory Board and appointed by the General Meeting of Shareholders, taking into account the profile. In its nominations, the Supervisory Board aims to align the experience and expertise of its members with the nature, activities and strategy of Alliander. The composition of the Supervisory Board is such that the members are able to operate independently and critically vis-à-vis one another, the Management Board and any particular interests involved.

The Committee of Shareholders and the Works Council can nominate members to the Supervisory Board. For one-third of the Supervisory Board members, the Works Council and the Committee of Shareholders have an 'enhanced right of recommendation', i.e. the person nominated by the Works Council or Committee of Shareholders will be included on the Supervisory Board's list of nominees, unless the Supervisory Board objects to this nomination, stating the reasons for its objection.

A Supervisory Board member is appointed for a period of four years, after which he or she can be reappointed, once only, for a further four-year period. Thereafter, reappointment for a two-year period is possible, with a possible extension of no more than two years. Reappointment after a period of eight years must be reported and explained in the report of the Supervisory Board. The Supervisory Board may suspend any one of its members, but the Enterprise Section of the Amsterdam Court of Appeal is the only competent party to dismiss a Supervisory Board member. The General Meeting of Shareholders can withdraw its confidence in the Supervisory Board; such resolution will result in the immediate dismissal of the Supervisory Board members.

### Supervisory Board Committees

The Supervisory Board has set up two committees from among its members, an Audit Committee and a combined Selection, Appointment and Remuneration Committee. The committees have their own meetings, which are in preparation for the plenary Supervisory Board meetings. In the Supervisory Board meeting, the committees report orally, and draft minutes of the committee meetings are distributed. The recommendations of the committees form the basis for decision-making during the Supervisory Board meeting. The Supervisory Board remains collectively responsible for the decisions prepared by a committee. Each committee has its own by-laws that set out the committee's organisation, procedures, and duties and responsibilities.

The Audit Committee advises the Supervisory Board and prepares material to help the Supervisory Board in its decision-making on matters such as the supervision of the design and effectiveness of the internal risk management and control systems, the integrity and quality of financial reporting, the financing policy and financing, and the interactions with the internal and external auditor.

The Selection, Appointment and Remuneration Committee prepares material to help the Supervisory Board in its decision-making on matters such as the selection criteria and appointment procedures for Supervisory Board and Management Board members and the remuneration policy for the Management Board and the Supervisory Board. Once a year, the committee also assesses the performance of the members of the Management Board and prepares the annual Remuneration Report.

## General Meeting of Shareholders

The Annual General Meeting of Shareholders (AGM) is held within five months of the end of the financial year. The key powers of the shareholders at the AGM include adoption of the financial statements and the dividend, discharging the members of the Management Board and the Supervisory Board from responsibility for their management and supervision respectively, adoption of the remuneration policy for the Management Board and of the remuneration of the Supervisory Board members, and the appointment or reappointment of the external auditor and the Supervisory Board members. In addition to these agenda items, the AGM agenda includes key board decisions that, in accordance with the law and the articles of association, must be submitted to the AGM (such as decisions about a major change in the identity or character of Alliander, an amendment to the articles of association, a legal merger or demerger, or large-scale investments) as well as any other investment proposals by the Supervisory Board or the Management Board.

All resolutions are passed on the basis of the 'one share, one vote' principle. Resolutions are adopted by an absolute majority of votes, unless the law or the company's articles of association prescribe a larger majority. A shareholder can be represented by proxy at the AGM. Extraordinary General Meetings are held as often as the Management Board or the Supervisory Board deem desirable. The agenda of the AGM is set by the Management Board and the Supervisory Board. Shareholders can also convene meetings and/or put items on the agenda, as provided for in the law and the articles of association.

## Internal audit function

Within Alliander, the Internal Audit department performs the internal audit function. Internal Audit has an independent, objective role that provides assurance and performs advisory engagements in order to deliver added value and improve the operational activities of Alliander. The department supports Alliander in achieving its corporate objectives through the systematic evaluation and improvement of the effectiveness of the risk management, control and governance processes.

Every year, Internal Audit draws up an audit plan based on risk reports and the audit findings in consultation with the Management Board, the Audit Committee and the external auditor. This plan describes the proposed audit engagements for the coming year. In addition, the plan devotes attention to the interaction with the external auditor. The annual audit plan is submitted to the Management Board and then to the Supervisory Board for approval. Internal Audit reports the audit results to the management and the Management Board and the essence of its audit findings to the Audit Committee and informs the external auditor. The audit findings will address, as a minimum:

- drawing up an annual audit plan;
- flaws in the effectiveness of the internal risk management and control systems;

- any findings and observations with a material impact on the risk profile of Alliander and its affiliated enterprises;
- any failings in the follow-up on recommendations of the internal audit function.

Internal Audit is an independent corporate support department operating under the responsibility of the Management Board. The Internal Audit Manager reports to the chair of the Management Board and also has direct access to the Audit Committee and the external auditor and attends meetings of the Audit Committee. The Management Board appoints and removes the Internal Auditor Manager. Both the appointment and the removal of the Internal Audit Manager is submitted to the Supervisory Board for approval, together with a recommendation from the Audit Committee.

## External auditor

The external auditor is appointed by the General Meeting of Shareholders upon the nomination of the Supervisory Board. Deloitte Accountants B.V. has been the external auditor of Alliander and its affiliated enterprises since the 2016 financial year. The external auditor audits the financial statements and reports the findings of the annual audit to the Management Board and the Supervisory Board. The conclusion from the findings is set out in a report. The General Meeting of Shareholders can ask the auditor questions about the findings. The auditor attends the General Meeting of Shareholders for this purpose. He is authorised to speak at this meeting.

The Audit Committee reports annually to the Supervisory Board on the performance of, and relationship with, the external auditor. The Management Board gives the Audit Committee, and by extension the Supervisory Board, an opportunity to examine the most important points of discussion arising between the external auditor and the Management Board based on the draft management letter or the draft board report.

The external auditor attends the meetings of the Supervisory Board in which the external auditors' report on the audit of the financial statements is discussed. The auditor also attends the meeting of the Supervisory Board in which the half-year figures are discussed. The external auditor attends the meetings of the Audit Committee, unless the Audit Committee decides otherwise. The external auditor immediately informs the chair of the Audit Committee of an actual or suspected abuse or irregularity that is uncovered during the audit. If this actual or suspected abuse or irregularity concerns a member of the Management Board, the external auditor reports this to the chair of the Supervisory Board.

## Other regulators

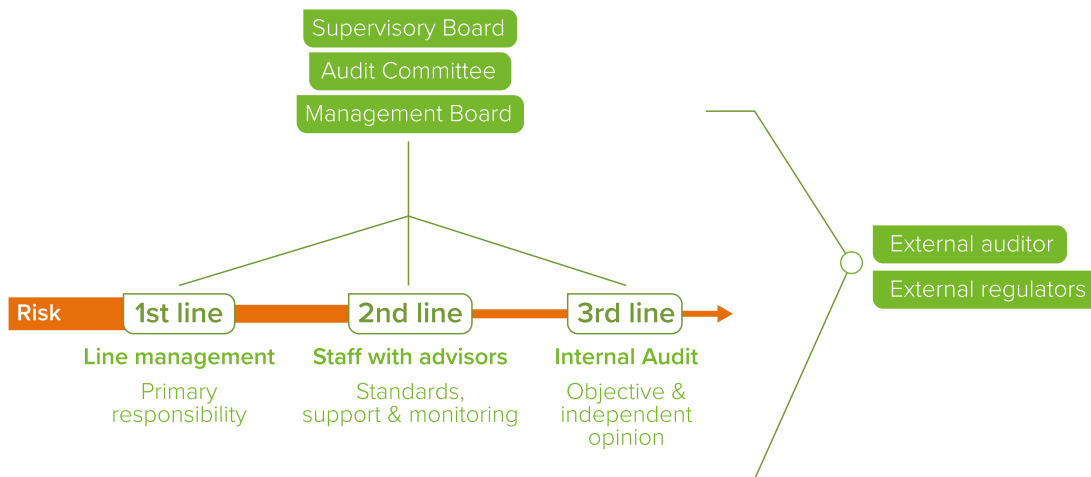
External organisations supervise Liander in its capacity as a network operator that is active in a regulated environment. They supervise such aspects as compliance with specific legislation and regulations.



## Risk management and control

Risk management is the deliberate handling of uncertainties that can have a negative impact on the achievement of the strategy as adopted by the Management Board. An effective risk management and internal control system is therefore important. The risk management and internal control system is updated in line with internal and external developments. We apply the 'three lines of defence' model for risk management purposes. Each line of defence has its own responsibility in the management and control process:

- The first line is primarily responsible for the identification, management and monitoring of the risks within its processes and for an effective risk management and control system.
- The second line supports, advises, coordinates and sets frameworks to ensure that the management genuinely takes responsibility. It thus provides additional assurance within Alliander.
- The third line provides additional assurance about the question whether the first and second lines can jointly manage the risks, so that the organisational objectives are achieved. They give an objective and independent opinion on this matter, including suggestions for possible improvements. The third line operates objectively and independently from all other parts of the organisation.



In addition, various other controls are in place to manage our risks, such as the Planning & Control Cycle, the Risk Management Framework, the Business Control Framework and the Alliander Accounting Manual. These controls are discussed in other parts of this report. Management responsibility for supervising the quality of the management of our top risks also consists of three layers.

- **Alliander Resilience Committee:** this Committee has the CFO as chair, issues recommendations to the Management Board on privacy & security, compliance, risk acceptance, risk profile, external risk reporting requirements, exceptions of a temporary nature or events that diverge from the applicable risk policy and acceptance. The Committee also discusses risk reports and monitors and advises on the follow-up actions arising from the internal and external audits. Finally, it also promotes the embedding of risk management and internal control processes within the business units and supply chains of Alliander.
- **Management Board:** the Management Board plays a proactive role in managing attitudes and behaviours regarding risk management and internal control. Every six months, the portfolio of top risks is discussed by the Management Board and the discussion of specific risks is frequently on the agenda. If necessary, the Management Board initiates the implementation of additional measures. Moreover, the Management Board monitors the risk management and control system, which it regularly tests against the expectations of, and developments at, our key stakeholders. The principal risks are set out in this annual report under Risks.
- **Supervisory Board:** the Supervisory Board supervises the design and effectiveness of the risk management and control system. The portfolio of principal risks is discussed in the Audit Committee every six months. A summary of the discussion is given to the full Supervisory Board. The Management Board provides an explanation of the risk report, which the Audit Committee takes on board in its supervision. Proposed adjustments to the risk management policy are put to the Audit Committee before being introduced.

## Integrity

Alliander attaches great importance to integrity and having an open, honest culture. Such a culture reduces the chance of abuses and irregularities. There are various regulations within Alliander related to the subject of integrity.

### Codes of conduct

Alliander has drawn up an internal Code of Conduct setting out the standards and values. The Alliander Code of Conduct, which applies to all employees, including agency/contract workers, sets out how we deal with each other, business partners, company and personal interests, business assets, confidential and non-confidential corporate information, security, and health, safety and the environment. In this way, we protect customers, associates and the reputation of Alliander, and jointly safeguard a pleasant and safe working environment. Failure to adhere to the code can have serious consequences and may even lead to dismissal.

The Management Board monitors the effectiveness of, and compliance with, the Alliander Code of Conduct. Every six months, the Management Board informs the Supervisory Board via the Audit Committee of its findings and observations in relation to the effectiveness and compliance. These reports are based on investigations into suspected violations of the Alliander Code of Conduct. The Internal Audit department acts as a Fraud Disclosure Desk and has specialist expertise to investigate reported incidents. One officer of the Fraud Disclosure Desk is a member of the association of certified fraud examiners (ACFE) with a continuing professional education obligation.

The Fraud Disclosure Desk completed 31 investigations into fraud and incident reports in the year under review. In ten cases, the management involved decided to impose a measure or sanction.

Every new employee is given information about the Alliander Code of Conduct. In addition, employees take a mandatory e-learning course dealing with subjects relating to the Code of Conduct. The e-learning course helps employees to become even more conscious of integrity requirements and challenges. Integrity issues and ways of dealing with dilemmas in this field are also discussed in team meetings. This concerns such aspects as anti-corruption measures, prevention of conflicts of interest, dealing with gifts, and handling confidential information. In addition, articles are regularly published on the intranet that focus on integrity risks and on employees who have acted contrary to the Alliander Code of Conduct.

In carrying out our business activities, we want to ensure that we comply with all applicable laws, rules and regulations, and we constantly strive to improve our social and environmental performance throughout the value chain. Ethical and honest business practices are our guiding principle when purchasing products and services. We have a dedicated code of conduct specifying what we require from suppliers and other parties, the Alliander Supplier Code of Conduct. This Code of Conduct covers matters like the ban on child labour and the use of forced labour, non-discrimination, and requirements regarding safety, environmental protection, and working conditions. Alliander expects suppliers to comply with this Code of Conduct in their own business operations and in their dealings with their own suppliers upstream. Non-compliance with the Code of Conduct can lead to the imposition of sanctions such as termination of the contract or temporary suspension of work with or without notice of default.

### Handling complaints

The integrity policy includes a Complaints Procedure for Inappropriate Behaviour and a Whistleblower Policy so that employees can report suspicion of abuse or an irregularity in a safe and structured way. Employees can also raise concerns in confidence with nominated officers within Alliander. This guarantees that every employee can report actual or suspected abuses of a general, operational and financial nature within Alliander. The Whistleblower Policy encourages employees to report every complaint or inappropriate situation within the organisation. They can do so internally to their manager, the Fraud Disclosure Desk or the nominated officer for whistleblowers. Incidents can also be reported to an external party under the protection of the Whistleblower Policy.

Once every six months, the nominated officer for whistleblowers provides the Management Board and the Audit Committee of the Supervisory Board with a list of whistleblowing reports received and the actions taken in response to these reports. All actual and suspected abuses and irregularities are immediately reported to the chair of the Supervisory Board.

### Guideline for the Prevention of Market Abuse

The Guideline for the Prevention of Market Abuse draws on the Alliander Code of Conduct and the European Market Abuse Regulation. The aim of the Guideline for the Prevention of Market Abuse is to set out in clear terms that employees are not permitted to share inside knowledge or use inside knowledge to conduct personal trading transactions in financial instruments of Alliander. The Guideline for the Prevention of Market Abuse describes the rules of conduct. This Guideline is also applicable to the members of the Management Board and the Supervisory Board.

The by-laws of the Management Board and the Supervisory Board stipulate that members of the Management Board and the Supervisory Board must adhere to disclosure and insider trading requirements that apply pursuant to the law or stock exchange regulations with regard to the ownership of or transactions in securities in listed companies.

## Compliance with the Code

Several provisions of the CG Code do not apply to Alliander given that all shares in Alliander are held by Dutch provinces and municipalities and are not listed on a stock exchange. Furthermore, Alliander does not have a one-tier management structure nor an executive committee in its management model, and the Management Board does not participate in any variable remuneration scheme. Moreover, Alliander has an internal audit department. The following is a list of the best practice provisions of the CG Code that do not apply to Alliander. For the full content of these best practice provisions, we refer the reader to the Dutch Corporate Governance Code.

- 1.3.6: Absence of an internal audit department
- 2.1.3: Executive committee
- 2.1.8 vi and vii, and 3.3.2 and 3.3.3: Remuneration of Supervisory Board members in shares/shareholding by Supervisory Board members
- 2.8.2 and 2.8.3: Takeover bid
- 3.1.2 ii and iv to vii: Remuneration policy
- 3.1.3: Remuneration of executive committee
- 3.4.1 iii and v Remuneration report
- 4.2.6: Anti-takeover measures
- 4.3.3: Cancelling the binding nature of a nomination or dismissal
- 4.3.4: Voting rights on financing preference shares
- 4.3.5 to 4.3.6: Publication of institutional investors' voting policy
- 4.4: Issuing depositary receipts for shares
- 5: One-tier governance structure

## Deviations from the CG Code

Where applicable, Alliander complies virtually fully with the principles and best practice provisions of the CG Code. Alliander deviates from the code on just a few points. Below we specify on which points Alliander deviates from the CG Code and explain the reasons for this. For the full content of these best practice provisions, we refer the reader to the Dutch Corporate Governance Code.

- **Principle 2.2.1:** appointment and reappointment periods: management board member – A member of the Management Board is appointed for an indefinite period. As the members of the Management Board act from a strategic long-term perspective, a limited appointment period would not be appropriate.
- **Principle 2.3.2:** establishment of committees – The Remuneration Committee and the Selection and Appointment Committee have, for practical reasons, been combined in the Selection, Appointment and Remuneration Committee.
- **Principle 2.3.7:** vice-chair of the supervisory board – No vice-chair has been appointed within the Supervisory Board. The meetings of the Supervisory Board are led by the chair or, in the chair's absence, by one of the other members of the Supervisory Board who is designated for this role by majority vote by the members of the Supervisory Board who are present or represented at the meeting.
- **Principle 2.4.3:** point of contact for the performance of supervisory board and management board members – No vice-chair has been appointed within the Supervisory Board. Each individual Supervisory Board member acts as a point of contact for individual members of the Supervisory Board and Management Board regarding the performance of the chair of the Supervisory Board.
- **Principle 3.2.3:** severance payments – Under certain conditions and if and insofar as this has been contractually agreed, this one-off payment is also made if a member of the Management Board resigns and cannot be reasonably required to continue the employment contract, such as in the case of a permanent change in policy regarding the function of a member of the Management Board, for example as the result of a merger, take-over, or reorganisation.
- **Principle 3.4.2:** contract for a management board member – At Alliander, management board members are appointed by the Supervisory Board. The Supervisory Board notifies the General Meeting of Shareholders – or the Committee of Shareholders – of a proposed appointment. The salary components of the management board members are transparently reported and published in the Remuneration Report.
- **Principle 4.1.10:** AGM report – Alliander sends the report proactively to all shareholders within three months of the AGM.
- **Principle 4.2.3:** meetings and presentations – Alliander shares are not listed on a stock exchange, but Alliander has issued five stock exchange-listed bonds. These are listed on the Amsterdam stock exchange. Alliander communicates in a transparent manner that is tailored to the target group. Alliander does not organise analysts' meetings, though the company does organise meetings with investors and shareholders after publication of the half-year and annual figures. Alliander also organises a press conference after the publication of its half-year and annual figures, at which the Management Board explains the company's performance over that period. The presentations given by the Management Board members are available online on Alliander's website. In addition, Alliander organises annual (and, if necessary, ad hoc) one-to-ones with rating agencies after the publication of the annual figures. These meetings and presentations cannot be followed by all shareholders in real time via webcasting. In 2019, however, a webcast replay of the conference call with investors on the 2018 figures was made available via the Alliander website for the first time.
- **Principle 4.3:** casting votes – The shareholders of Alliander are not given an opportunity to vote remotely or to communicate with all other shareholders. There is little need for this, in view of the high attendance at the AGM (on average more than 80% of the issued capital is represented at the meeting). In addition, proxy voting forms are enclosed in the convocation to the meeting. Moreover, Alliander would like to see the General Meeting of Shareholders remain an opportunity for direct contact with the shareholders.

## Corporate Governance Statement

The Corporate Governance Statement is a statement about corporate governance as referred to in Article 2a of the Decree on the content of the Management Board Report of 1 January 2018 ('the Decree'). The information that is required to be included in this Corporate Governance Statement pursuant to Article 3a(a) and (d) of the Decree can be found in the chapters, sections and pages of this Report of the Management Board and should be considered as inserted and reiterated here.

- The main features of the internal risk management and control system relating to the financial reporting process of the Alliander group (Article 3a[a] of the Decree) are set out in the Risks section.
- The diversity policy relating to the composition of the Management Board and the Supervisory Board stating the objectives of the policy, the method of implementation, and the results of this policy in the past financial year (Article 3a[d] of the Decree) is set out in the Report of the Supervisory Board.