

# **Corporate Governance at AMG**

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## Corporate Governance at AMG

AMG Advanced Metallurgical Group N.V. is a Dutch company located in the Netherlands which was established in 2006 as the holding company for the AMG group companies. Its shares were first listed on Euronext Amsterdam in July 2007.

In this report, the Company, as a Dutch listed company, sets forth its overall corporate governance structure and the extent to which it applies the provisions of the Dutch Corporate Governance Code as recently amended and issued on December 8, 2016 (the “2016 Code”). The Dutch Corporate Governance Code can be downloaded at [www.mccg.nl](http://www.mccg.nl). As of January 1, 2017, the 2016 Code is effective in the Netherlands, replacing the 2008 Code. As provided under the 2016 Code, the Company reviewed and updated, its procedures and documentation in order to be compliant with the principles and best practice provisions set forth in the 2016 Code. The Supervisory Board and the Management Board, which are responsible for the corporate governance structure of the Company, hold the view that the vast majority of principles and best practice provisions set forth in the 2016 Code as applicable during 2017 are being applied, while certain deviations are discussed and explained hereafter. A full and detailed description of AMG’s Corporate Governance structure and AMG’s compliance with the Dutch Corporate Governance Code follows hereafter.

AMG Advanced Metallurgical Group N.V., is located in the Netherlands, is a company organized under Dutch law and has various subsidiaries in multiple jurisdictions to enable efficient business operations.

The Management Board is responsible for maintaining a culture which is conducive to achieving its strategic objectives with a focus on long term value creation, as further explained in this chapter.

### 1. ANNUAL ACCOUNTS AND DIVIDENDS

The Management Board and the Supervisory Board have approved AMG’s audited consolidated financial statements for 2017. KPMG Accountants N.V. audited these financial statements. The audited financial statements will be submitted for adoption to the General Meeting of Shareholders in May 2018.

The Management Board is authorized, subject to approval by the Supervisory Board, to reserve profits wholly or partly. The General Meeting is authorized to distribute and/or reserve any remaining part of the profits. The General Meeting may decide about reserves only on a proposal by the Management Board, which must have been approved by the Supervisory Board.

AMG’s dividend policy was revised by the Management Board in 2015 when AMG started paying dividends to its shareholders. Over 2016 a dividend was paid in the amount of EUR 0,27 per ordinary share AMG which was resolved by the General Meeting of Shareholders in May

2017. Following the approval by the Supervisory Board, for the year 2017 an interim dividend of EUR 0.14 per ordinary AMG was paid in August 2017. The Company will discuss the dividend policy in greater detail during the Annual General Meeting in May 2018. The Company intends to propose a full year dividend for 2017 of EUR 0.28 to the General Meeting of Shareholders for approval as part of the adoption of the 2017 Annual Accounts. The interim dividend of EUR 0.14 per ordinary AMG share paid in August 2017 will be deducted from this amount. Payment of dividends to shareholders will be at the discretion of the Management Board subject to the approval of the Supervisory Board after taking into account various factors, including business prospects, cash requirements, financial performance, expansion plans, the terms of the Company's financing facilities and the compliance with applicable statutory and regulatory requirements.

Additionally, any payment of dividends (whether interim or after adoption of the annual accounts) or other distributions to shareholders may be made only if the Company's shareholders' equity exceeds the sum of the issued share capital plus the reserves required to be maintained by law.

## 2. SHARES AND SHAREHOLDERS' RIGHTS

As of December 31, 2017, the total issued share capital of AMG amounted to EUR 598,160.94, consisting of 29,908,047 ordinary shares of EUR 0.02 each. Each ordinary share carries one vote. The ordinary shares are listed on Euronext Amsterdam. The ordinary shares are freely transferable.

Pursuant to the Financial Markets Supervision Act (Wet op het financieel toezicht) and the Decree on Disclosure of Major Holdings and Capital Interests in Securities-Issuing Institutions (Besluit melding zeggenschap en kapitaalbelang in uitgevende instellingen), the Netherlands Authority for the Financial Markets (Stichting Autoriteit Financiële Markten) has informed the Company that it was notified of the following substantial holdings (>3%) in ordinary shares of AMG. The information below is based on publications registered with the AFM register before March 16, 2018 (unless otherwise annotated) and therefore may not necessarily reflect the actual holdings as of that date.

### AS OF [MARCH 16, 2018]

OMAM Inc.	7.3%
JP Morgan Asset Management UK Ltd.	4.9%
Norges bank Investment Management	3.1%
KBC Asset Management	3.0%
Belgravia Capital	3.0%

	2017	2016
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Number of ordinary shares issued	29,908,047	28,252,419
Average daily turnover	218,809	117,897
Highest Closing Price	€42.01	€19.13
Lowest Closing Price	€15.24	€7.40

### 3. PREFERENCE SHARES

The General Meeting of Shareholders approved in its meetings of May 12, 2010 and July 6, 2010 that the Articles of Association of the Company would be changed in order to introduce a new class of preference shares, which may be issued and used as a response device in order to safeguard the interests of the Company and its stakeholders in all those situations where the Company's interests and those of its stakeholders are at stake, including but not limited to situations in which non-solicited public offers are made.

The preference shares carry equal voting rights as ordinary shares and are entitled, if distribution to shareholders is permitted, to a fixed dividend equal to the Euro Interbank Offered Rate for deposit loans of one year, increased with maximum of 400 basis points as determined by the Management Board of the Company and subject to approval by the Supervisory Board. The Articles of Association of the Company were amended on July 6, 2010, to provide for an authorized share capital of 65.0 million ordinary shares and 65.0 million preference shares.

Contrary to ordinary shares, preference shares may be issued against partial payment thereon provided that at least one quarter of the nominal amount is paid-up in full upon subscription. The preference shares are not freely transferable; any transfer thereof is subject to the approval of the Supervisory Board.

### 4. STICHTING CONTINUÏTEIT AMG

In line with Dutch law and corporate practice, on July 6, 2010, the Stichting Continuïteit AMG (the Foundation) was established in Amsterdam, having as its main objective to safeguard the interests of the Company and its stakeholders.

The Board of the Foundation is independent from the Company and currently consists of Mr. H. de Munnik, Chairman, and Mr. H. Borggreve as member and Mr. H. Reumkens. The main objective of the Foundation is to represent the interests of the Company and of the enterprises maintained by the Company and the companies affiliated with the Company in a group, in such a way that the interests of the Company and of those enterprises and of all parties involved in this are safeguarded in the best possible way, and that influences which could affect the independence and/or continuity and/or identity of the Company and those enterprises in breach of those interests are deterred to the best of the Foundation's ability.

Under the terms of an option agreement dated December 22, 2010 between the Company and the Foundation, the Foundation has been granted an option pursuant to which it may purchase a number of preference shares up to a maximum of the total number of ordinary shares outstanding at any given time in the event of a threat to the continuity or strategy of AMG.

## 5. VOTING RIGHTS

There are no restrictions on voting rights of ordinary and preference shares. Shareholders who hold shares on April 4, 2018 (mandated as the 28th day prior to the day of the General Meeting of Shareholders) are entitled to attend and vote at the General Meeting of Shareholders regardless of a sale of shares after such date.

The relationship agreement with RWC European Focus Master Inc. (RWC), which was AMG's largest shareholder until recently, did come to an end the day after the Annual Meeting in May 2017. Until that moment, RWC had committed itself to support the Management Board of AMG. RWC currently owns less than 3% of the share capital of AMG. Please refer to pages paragraph 11 concerning the Decree on Article 10 of the Takeover Directive where a more detailed description is provided of the terms of this relationship agreement between AMG and RWC as that was effective until May 5<sup>th</sup>, 2017.

## 6. MANAGEMENT BOARD

The executive management of AMG is entrusted to its Management Board, which is chaired by the Chief Executive Officer. The Articles of Association provide that the number of members of the Management Board shall be determined by the Supervisory Board. The members of the Management Board are appointed by the General Meeting of Shareholders for a maximum term of four years and may be re-appointed for additional terms not to exceed four years.

The Management Board members are collectively responsible for creating a culture within the AMG Group that is focused on long-term value creation. Such responsibilities shall comprise the Company's management and the general affairs of the Company's business and of the AMG Group's business. Each Management Board member shall serve the best interests of the Company with a view to creating long term value, while carrying out his responsibilities and will take into account the interests of all the Company's stakeholders.

The Management Board has drawn up a code of business conduct and monitor its effectiveness and compliance with the Code and has established a procedure for reporting actual or suspected irregularities within the Company or its group companies. The Management Board has further adopted values for the Company and the AMG Group (the "AMG Values") and is responsible for maintenance of the AMG Values within the Company and its group companies by encouraging behavior that is in keeping with the AMG Values and propagating these by leading by example. In this regard specific attention shall be given to the strategy and the business model, the environment in which the Company and the AMG Group operate and the existing culture within the Company and the AMG Group. AMG's Sustainability Report for 2017

contains a further review of the application of the AMG Values within the AMG Group and compliance with the AMG Code of Business Conduct during 2017.

The Management Board is responsible for the internal audit function of the AMG Group and the Management Board appoints and dismisses the senior internal auditor upon approval of the Supervisory Board, along with the recommendation of the Audit & Risk Management Committee.

The Supervisory Board is authorized to make a non-binding or binding nomination regarding the appointment of members of the Management Board. A binding nomination means that the General Meeting of Shareholders may appoint the nominated persons, unless the General Meeting of Shareholders rejects the nomination by an absolute majority (more than 50% of the votes cast) representing at least one-third of the issued share capital. In case the absolute majority is reached, however, not representing one-third of issued share capital, a second meeting will be convened in which the resolution may be adopted without a quorum applying. If the Supervisory Board has not made a nomination, the appointment of the members of the Management Board is at the full discretion of the General Meeting of Shareholders. The General Meeting of Shareholders and the Supervisory Board may suspend a member of the Management Board at any time.

A resolution of the General Meeting of Shareholders to suspend or dismiss a member of the Management Board requires an absolute majority (more than 50% of the votes cast), representing at least one-third of the issued share capital, unless the Supervisory Board has proposed the suspension or dismissal to the General Meeting of Shareholders, in which case an absolute majority is required but without any quorum requirement. The Management Board follows its own rules of procedure concerning the procedures for meetings, resolutions and similar matters. These rules of procedure are published on the Company's website. The Company has rules to avoid and deal with conflicts of interest between the Company and members of the Management Board.

The Articles of Association state that in the event of a direct or indirect personal conflict of interest between the Company and any of the members of the Management Board, the relevant member of the Management Board shall not participate in the deliberations and decision-making process concerned. If all members of the Management Board are conflicted, and, as a result, no Management Board resolution can be adopted, the Supervisory Board shall adopt the resolution. In addition, it is provided in the rules of procedure of the Management Board that the respective member of the Management Board shall not take part in any decision-making that involves a subject or transaction to which he or she has a conflict of interest with the Company. Such transaction must be concluded on market practice terms and approved by the Supervisory Board. The rules of procedure of the Management Board establish further rules on the reporting of (potential) conflicts of interest.

## 7. SUPERVISORY BOARD

The Supervisory Board shall supervise the general course of business of the Company and the business associated with it, and the manner in which the Management Board implements the long term value creation strategy of the Company. The Supervisory Board shall regularly discuss the strategy, the implementation of the strategy and the principal risks associated with it. The Supervisory Board will assist the Management Board by providing advice. In fulfilling their duties the Supervisory Directors shall act in the interest of the Company and its affiliated enterprises and the Supervisory Board shall take into account the stakeholder interests that are relevant in this context. The Supervisory Board is responsible for the quality of its own performance and evaluates its own performance and that of the Management Board once per year.

Under the two-tier corporate structure under Dutch law, the Supervisory Board is a separate body that is independent of the Management Board. Members of the Supervisory Board can be neither members of the Management Board nor an employee of the Company

The Supervisory Board discusses and approves major management decisions and the Company's strategy. The Supervisory Board has adopted its own rules of procedure concerning its own governance, committees, conflicts of interest, etcetera. The rules of procedure are published on the Company's website and include the charters of the committees to which the Supervisory Board has assigned certain preparatory tasks, while retaining overall responsibility.

These committees are the Remuneration Committee, the Selection and Appointment Committee and the Audit & Risk Committee. The Supervisory Board shall be assisted by the Secretary of the Company who shall be appointed by the Management Board after approval of the Supervisory Board has been obtained. The number of members of the Supervisory Board will be determined by the General Meeting of Shareholders with a minimum of three members.

A Supervisory Director shall be appointed for a maximum period of four (4) years and may then be re-appointed once for another maximum four-year period. The Supervisory Director may then subsequently be reappointed again for a period of two (2) years, which appointment may be extended by at most two (2) years. In the event of a reappointment after an eight-year period, reasons shall be given in the (annual) report of the Supervisory Board. In any appointment or reappointment, the profile be observed.

The Supervisory Board shall prepare a rotation schedule to prevent, re-appointments occurring disorderly. The rotation schedule shall be made generally available and shall be posted on the Company's website.

The Supervisory Board is authorized to make a binding or non-binding nomination regarding the appointment of the members of the Supervisory Board. In the event of a binding nomination, the General Meeting of Shareholders appoints the members of the Supervisory Board from a nomination made by the Supervisory Board.

A binding nomination means that the General Meeting of Shareholders may appoint the nominated person, unless the General Meeting of Shareholders rejects the nomination by an absolute majority (more than 50% of the votes cast) representing at least one-third of the issued share capital.

In case the absolute majority is reached, however, not representing one-third of issued share capital, a second record meeting will be convened in which the resolution may be adopted with normal majority, without a quorum applying.

If the Supervisory Board has not made a nomination, the appointment of the members of the Supervisory Board is at the full discretion of the General Meeting of Shareholders. The General Meeting of Shareholders may, at any time, suspend or remove members of the Supervisory Board. A resolution of the General Meeting of Shareholders to suspend or remove members of the Supervisory Board requires an absolute majority (more than 50% of the votes cast) representing at least one-third of the issued share capital, unless the Supervisory Board has proposed the suspension or dismissal, in which case an absolute majority is required, without any quorum requirement.

As required under the 2016 Code and Dutch law, the Company has formalized strict rules to avoid and deal with conflicts of interest between the Company and the members of the Supervisory Board, as further described in the rules of procedure of the Supervisory Board. Further information on the Supervisory Board and its activities is included in the Report of the Supervisory Board as published in the Annual Report 2017.

Each of the current members of the Supervisory Board is obliged not to transfer or otherwise dispose of any shares granted as part of their annual remuneration until the earlier of the third anniversary of the date of grant or the first anniversary of the date on which he or she ceases to be a member of the Supervisory Board. Shares in the Company held by the Supervisory Directors shall be held only as long-term investment.

## **8. GENERAL MEETING OF SHAREHOLDERS**

A General Meeting of Shareholders is held at least once per year. During the Annual Meeting, the Annual Report, including the report of the Management Board, the annual (consolidated) financial statements, the implementation of the remuneration policy for the Management Board and the report of the Supervisory Board, are discussed, as well as other matters pursuant to Dutch law or the Company's Articles of Association.

As a separate item on the agenda, the General Meeting of Shareholders is entrusted with the discharge of the members of the Management Board and the Supervisory Board from responsibility for the performance of their duties during the preceding financial year. The General Meeting of Shareholders is held in Amsterdam or Haarlemmermeer (Schiphol Airport), and takes place within six months of the end of the preceding financial year.

Meetings are convened by public notice on the website of the Company and by letter, or by use of electronic means of communication, to registered shareholders. Notice is given at least 42 days prior to the date of the General Meeting of Shareholders. The main powers of the General Meeting of Shareholders are set forth in the Company's Articles of Association, which are published on the Company's website and the applicable provisions of Dutch law.

On May 4, 2017, the General Meeting of Shareholders resolved to authorize the Management Board for a period of 18 months from that date (until November 3, 2018) as the corporate body, which, subject to approval by the Supervisory Board, is authorized (i) to issue shares, including any grant of rights to subscribe to shares up to a maximum of 10% of the Company's issued share capital as per December 31, 2016, for the purpose of mergers and acquisitions and financial support arrangements relating to the Company and/or participations (deelnemingen) of the Company and (ii) issue shares, including any grant of rights to subscribe to shares, up to a maximum of 10% of the Company's issued share capital as per December 31, 2016 for general corporate purposes. Both authorizations also include the power to restrict or exclude preemptive rights. On May 4, 2017, the General Meeting of Shareholders resolved to authorize the Management Board for a period of 18 months from that date (until November 3, 2018) as the corporate body which, subject to approval by the Supervisory Board, is authorized to effect acquisitions of its own shares by AMG. The number of shares to be acquired is limited to 10% of the Company's issued share capital as of December 31, 2016, taking into account the shares previously acquired and disposed of at the time of any new acquisition. Shares may be acquired through the stock exchange or otherwise, at a price between par value and 110% of the average stock exchange price for a five-day period prior to the date of acquisition. The stock exchange price referred to in the previous sentence is the average closing price of the shares at Euronext Amsterdam on the five consecutive trading days immediately preceding the day of purchase by, or for, the account of the Company.

## 9. ARTICLES OF ASSOCIATION

The Company's Articles of Association can be amended by a resolution of the General Meeting of Shareholders on a proposal from the Management Board that has been approved by the Supervisory Board. A resolution of the General Meeting of Shareholders to amend the Articles of Association that has not been taken on the proposal from the Management Board and the approval of the Supervisory Board, should be adopted by a majority of at least two-thirds of the votes cast in a meeting in which at least 50% of the issued share capital is represented. The Articles of Association have last been amended on June 24, 2015 following approval by the General Meeting of Shareholders in its Extraordinary General Meeting held on June 18, 2015 and are published on the Company's website [amg-nv.com](http://amg-nv.com).

## 10. CORPORATE SOCIAL RESPONSIBILITY

AMG's Values (safety, value creation, integrity and respect for people) form the core foundation of AMG's ambition to being a leader in the field of critical materials and engineering services and to achieving excellence in all that it does. They apply to how AMG and its group

companies conduct their operations and how they deal with their employees, business partners and stakeholders.

In being a responsible corporate citizen, AMG endorses and supports the definition of corporate social responsibility as set by the World Business Council for Sustainable Development, being: "...the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large." For AMG and its affiliated companies this translates into three main sustainable development objectives that the Company has formulated in connection with its financial objectives, technological capabilities and its leading position at the heart of the global metallurgical industry: to provide safe working conditions for our employees and to be responsible stewards of the environment; to meet or exceed regulatory standards by engaging in ethical business practices; and to be a valued member of the local economy, community and society at large by contributing to solutions for addressing some of the fundamental environmental and social challenges facing society today. The Supervisory Board and the Management Board of the Company take continued guidance from these objectives when defining and implementing the Company's strategic objectives.

The Sustainability report section in the 2017 Annual Report further elaborates on the application of AMG's Code of Business Conduct and its Speak Up and Reporting Policy.

#### 11. DECREE ON ARTICLE 10 OF THE TAKEOVER DIRECTIVE

The information required by the Decree on Article 10 of the Takeover Directive is included in this Corporate Governance section and the Report of the Supervisory Board, whose information is incorporated by reference in this Corporate Governance report.

Below is an overview of the significant agreements to which the Company is a party, which are affected, changed or terminated subject to the condition of a change of control or contain new restrictions on voting rights attached to shares.

The Company is a party to the following agreements that will be terminated under the condition of a change of control over the Company as a result of a public takeover offer.

The Company has entered into a new credit agreement dated 1 Februari 2018, which has a provision that requires the Company to repay the entire outstanding amount under its Credit Agreement upon a change of control, as defined therein.

The Company is also a party to the following agreements that will come into force upon a change of control pursuant to a public offer. All members of the Management Board have provisions in their contracts that pertain to a change of control. Additionally, the AMG Management Board Option Plan and the AMG Performance Share Unit Plan have provisions that permit the Supervisory Board to cancel or modify the options granted or performance share units awarded to Management Board members and other employees, upon a change of control.

The Company is a party to an option agreement entered into with the Stichting Continuïteit AMG as further explained in paragraph 4 above.

Other than the above-mentioned agreements, the Company is not party to any other important agreements that will come into force, or be amended or terminated upon a change of control pursuant to a public takeover offer.

#### RELATIONSHIP AGREEMENT WITH RWC

Until May 5<sup>th</sup>, 2017, the Company was a party to a relationship agreement that had been signed with RWC European Focus Master Inc. (“RWC”) on March 7, 2015, with the exception of certain provisions which had a shorter term. The contents of and developments relating to this relationship agreement have been described in the Annual Reports for the years 2015 and 2016, which sections are incorporated herein by reference to the extent necessary.

On November 17, 2016, RWC had announced that it had sold 2.8 million existing ordinary shares in AMG to institutional investors, corresponding to approximately 10% of the Company’s issued share capital. Subsequently, RWC has reduced its shareholding in AMG to less than 3 % of AMG’s share capital as per its notification to the AFM on 20 December 2017.

Mr. Petteri Soininen stepped down as member of the Supervisory Board at the Annual General Meeting on May 4, 2017.

## 12. RISK MANAGEMENT AND INTERNAL CONTROLS

AMG employs a risk management approach that identifies and mitigates risk at all levels of the organization. The Company analyzes risks in formal settings such as scheduled Management Board and Supervisory Board meetings as well as everyday operational situations faced by its global employee base. AMG has implemented a comprehensive risk management program centered on the Company’s Risk Assessment Package (RAP). The RAP includes a “top-down” and “bottom-up” analysis and assessment of the Company’s risks. The RAP is a detailed document requiring each business unit to:

- (i) identify potential risks and quantify the impact of such risks;
- (ii) prioritize the risks using a ranking system to estimate the financial impact, probability and mitigation delay of these risks;
- (iii) describe the risk mitigation or transfer procedures in place;
- (iv) document the periodic monitoring of the risks;
- (v) assign the individuals responsible for the monitoring the risks;

- (vi) review the trends of the risks identified by the business units
- (vii) periodically audit previous RAP submissions to evaluate the risk management process.

Each business unit undertakes a full review of its RAP on a quarterly basis. The RAPs are then reviewed in detail by AMG's Risk Management Committee in coordination with the operating managers of the business units. Key risks from all business units are then summarized and presented to the Management Board. Individual risks of special note are discussed at the Management Board's bi-weekly meeting. On at least a semi-annual basis, the Audit and Risk Management Committee of the Supervisory Board formally reviews the consolidated risk package provided by AMG's Risk Management Committee. The Audit and Risk Management Committee of the Supervisory Board supervise, monitor, and report on the Company's internal control and risk management programs.

As stated above, the Management Board is responsible for the internal audit function of the Company. The Internal Auditor of AMG reports to the Audit & Risk Management Committee and to the Management Board and operates on the basis of an Internal Audit plan approved by the Supervisory Board and Management Board. The Internal Audit plan is risk-based and comprises all units and subsidiaries of the AMG Group with a focus on financial control, IT risks and compliance.

The Internal Audit function closely cooperates with the external auditors of the Company and attends all meetings of the Audit & Risk Management Committee of the Supervisory Board.

### 13. INVESTOR RELATIONS

The Company highly values good relations with its shareholders and is compliant with applicable rules and regulations on non-selective and timely disclosure and equal treatment of shareholders. Apart from communication at the Annual General Meeting of Shareholders, the Company explains its financial results during (public) quarterly conference calls. Further, the Company publishes annual, semi-annual and quarterly reports and press releases and makes information available through its public website ([www.amg-nv.com](http://www.amg-nv.com)).

The Company also engages in bilateral communications with investors and in doing so adheres to its policy on bilateral contacts which is published on the Company's website. During these communications the Company is in general represented by its Investor Relations Officer, occasionally accompanied by a member of the Management Board

### 14. COMPLIANCE WITH THE DUTCH CORPORATE GOVERNANCE CODE 2016

As stated above, AMG is subject to the 2016 Code for the 2017 financial year.

As a general statement the Company fully endorses the new Code's principles and believes that virtually all best practice provisions as included in the 2016 Code are complied with. On certain

matters involving the remuneration policy of the Company, specifically b.p.p. 3.2.3 concerning severance payments and b.p.p. 3.3.2 concerning remuneration of the Supervisory Board members in the form of shares AMG, the Company does not comply with these best practice provisions and it believes that it has sound reasons for doing so, which are explained below.

## I. **Long Term Value Creation**

**Principle 1.1 Long Term Value Creation.** The general concept explained in this Principle of the Code is fully endorsed and the Company applies the best practice provisions contained herein, amongst others, by a clear description in the Annual report of the development of the strategy, the involvement of the Supervisory Board, assessment of the risks associated with the strategy and periodic review of the internal risk management and control systems.

**Principle 1.2 Risk Management.** The general concept explained in this Principle of the Code is fully endorsed and the Company applies the best practice provisions contained herein, amongst others, by having adequate risk management and control systems in place which are periodically reviewed as further described in the Risk Report as part of the Annual Report.

**Principle 1.3 Internal Audit Function.** The general concept explained in this Principle of the Code is fully endorsed and the Company applies the best practice provisions contained herein, amongst others, by having an internal audit function which actively engages with the Management Board, Audit & Risk Management Committee and the External Auditor of the Company and reporting its findings to these bodies.

**Principle 1.4 Risk Management Accountability.** The general concept explained in this Principle of the Code is fully endorsed and the Company applies the best practice provisions contained herein, amongst others, by the Risk Report of the Management Board as published in the Annual report and the Statement of Responsibilities by the Management Board in the Annual Report.

**Principle 1.5 Role of the Supervisory Board.** The general concept explained in this Principle of the Code is fully endorsed and the Company applies the best practice provisions contained herein, amongst others, by the operation of the Audit & Risk Management Committee of the Supervisory Board and its regular review of and reporting to the Supervisory Board about the (methods to assess the) effectiveness of the internal risk management and control systems of the Company.

**Principle 1.6 Appointment and assessment of the functioning of the external auditor.** The general concept explained in this Principle of the Code is fully endorsed and the Company applies the best practice provisions contained herein, amongst others by periodic reporting by the Audit & Risk Management Committee of the Supervisory Board about the functioning of, and the development in the relationship with, the external auditor.

**Principle 1.7 Performance of the external auditor's work.** The general concept explained in this Principle of the Code is fully endorsed and the Company applies the best practice provisions contained herein, amongst others by having regular discussions between the Audit & Risk Management Committee and the external auditor about the audit plan and the findings of the external auditor based on the work the external auditor has undertaken.

## **II. Effective Management and Supervision**

**Principle 2.1 Composition and size.** The general concept explained in this Principle of the Code is fully endorsed and the Company applies the best practice provisions contained herein, amongst others by having in place detailed Rules of Procedure for the Management Board and for the Supervisory Board as well as a Diversity Policy, which contain details about matters like expertise, diversity, independence criteria for Supervisory Board members.

**Principle 2.2. Appointment, succession and evaluation.** The general concept explained in this Principle of the Code is fully endorsed and the Company applies the best practice provisions contained herein, amongst others, as evidenced by the Report of The Supervisory Board as published in the Annual Report and the Rules of Procedure of the Supervisory Board (as amended).

**Principle 2.3 Organization of the Supervisory Board and reports.** The general concept explained in this Principle of the Code is fully endorsed and the Company applies the best practice provisions contained herein amongst others, as evidenced by the Report of The Supervisory Board as published in the Annual Report and the Rules of Procedure of the Supervisory Board (as amended).

**Principle 2.4 Decision-making and functioning.** The general concept explained in this Principle of the Code is fully endorsed and the Company applies the best practice provisions contained herein amongst others, as evidenced by the Report of the Supervisory Board as published in the Annual Report and the Rules of Procedure of the Supervisory Board (as amended).

**Principle 2.5 Culture.** The general concept explained in this Principle of the Code is fully endorsed and the Company applies the best practice provisions contained herein amongst others, as evidenced by the Report of the Management Board as published in the Annual Report, including the Letter to Shareholders and the sections on Sustainability and on Corporate Governance.

**Principle 2.6 Misconduct and irregularities.** The general concept explained in this Principle of the Code is fully endorsed and the Company applies the best practice provisions contained herein amongst others, as evidenced by the Company's Code of Business Conduct and Speak Up & Reporting Policy (published on the Company's website) and the Report of Management

Board as published in the Annual Report including the Letter to Shareholders and the sections on Sustainable Development and on Corporate Governance.

**Principle 2.7 Preventing Conflicts of interest.** The general concept explained in this Principle of the Code is fully endorsed and the Company applies the best practice provisions contained herein amongst others, as evidenced by the Rules of Procedure of the Supervisory Board and of the Management Board (as amended) and by the section on Corporate Governance as published in the Annual Report.

**Principle 2.8 Takeover Situations.** The general concept explained in this Principle of the Code is fully endorsed and the Company applies the best practice provisions contained herein.

### III. **Remuneration.**

**Principle 3.1 Remuneration Policy Management Board.** The general concept explained in this Principle of the Code is fully endorsed and the Company applies the best practice provisions contained herein, amongst others as evidenced by the Remuneration Report of the Supervisory Board as published in the Annual Report.

**Principle 3.2 Determination of management board remuneration.** The general concept explained in this Principle of the Code is fully endorsed and the Company applies the best practice provisions contained herein, except with respect to **best practice provision 3.2.3** (Severance Payments) as follows:

**Departure best practice provision 3.2.3.** Two members of the Management Board have a contract of employment with the Company as well as a constituent US entity of AMG. These two members were first appointed to the Management Board in 2006. These employment contracts provide for payment of two years of base salary + one time AMG's target annual bonus in the event of termination by the Company without cause. The third member of the Management Board has only one employment contract with a constituent US entity of AMG as well as a management agreement with the Company. This management board member (appointed in 2016), receives payment of two years of base salary in the event of termination by the Company without cause. As a result, the Company departs from best practice provision 3.2.3. in case dismissal takes place without cause.

The main reason for this departure is found in the history of the AMG Group, as follows:

By way of general background, it is to be emphasized that AMG was first formed in 2006 through the merger of eight operating companies each with different histories and originating from different countries. Two members of the Management Board (formed in 2007) had preexisting contracts as executives of certain of the operating companies that later formed and became part of the current AMG Group. These contracts reflect local market conditions and customary provisions in the countries in which the executives have been employed. They have

provisions that do not fully comply with the Corporate Governance Code's best practices. In view of the specialized nature of AMG's business and the qualifications and expertise of the present members of the Management Board, the Supervisory Board of the Company had taken the decision early on to honor the existing contractual commitments to the members of the Management Board, in order to retain their services and to maintain their commitment to the Company. In this context the severance payment compensation agreed in 2006 has been maintained, for the two (most senior) Management Board members and also the newest (third) member of the Management Board is entitled to two years base salary in order to keep an appropriate level of cohesion between the employment conditions of the individual Management Board members. The Supervisory Board expects that this departure will continue to apply during the terms of the current Management Board members. Further, the Supervisory Board holds the view that this departure does not in any way negatively affect good corporate governance at the Company.

**Principle 3.3 Remuneration of the Supervisory Board.** The general concept explained in this Principle of the Code is fully endorsed and the Company applies the best practice provisions contained herein, except with respect to **best practice provision 3.3.2** (remuneration awarded in the form of shares) as follows:

**Departure best practice provision 3.3.2.** The General Meeting of Shareholders approved and adopted in its 2009 Annual Meeting and subsequently in its 2013 Annual Meeting, the granting of shares to members of the Supervisory Board as part of their annual remuneration. As explained by the Supervisory Board during the 2009 and 2013 Annual General Meetings of Shareholders, it considers it important that it can recruit future members from the global marketplace given the size and complexity of the markets the Company is operating in. This merits that part of the remuneration is paid in company shares, in line with US practice (and the general US centric approach for executive compensation as chosen by the Supervisory Board), where the Company has its operational headquarters. Shares granted as compensation to Supervisory Board members are held as long-term investments and restricted from trading for a period of three (3) years from the date of granting. As a result the Company departs from best practice provision 3.3.2.. for reasons explained above. The Supervisory Board expects that this departure will continue to apply indefinitely as it is in place since 2007 and has contributed to the quality of the Supervisory Board and success of the Company. Further, the Supervisory Board holds the view that this departure does not in any way negatively affect good corporate governance at the Company.

**Principle 3.4 Accountability for implementation of remuneration policy.** The general concept explained in this Principle of the Code is fully endorsed and the Company applies the best practice provisions contained herein amongst others, as evidenced by the Remuneration Report of the Supervisory Board as published as part of the Annual Report and the materials posted on the Company's website.

#### IV. **The General Meeting**

Principle 4.1 **The General Meeting.** The general concept explained in this Principle of the Code is fully endorsed and the Company applies the best practice provisions contained herein.

Principle 4.2 **Provision of Information.** The general concept explained in this Principle of the Code is fully endorsed and the Company applies the best practice provisions contained herein.

Principle 4.3 **Casting Votes.** The general concept explained in this Principle of the Code is fully endorsed and the Company applies, to the extent applicable to the Company, the best practice provisions contained herein.

Principle 4.4 **Issuing depositary receipts for shares.** This Principle is not applicable since the Company has not issued depositary receipts for its shares.

V. **One-tier Governance Structure.** The Principles set forth herein do not apply to the Company as it has adopted a two-tier Board structure.

#### 15. CONFLICTS OF INTEREST

No conflicts of interest that were of material significance to the Company and/or members of the Management Board and Supervisory Board were reported in the period starting January 1, 2017, up to and including March 21, 2018.

During the period starting January 1, 2017 up to and including March 21, 2018, the Company did not enter into any material transaction with a shareholder holding an interest of 10% or more in the Company's share capital.

Accordingly, the Company has complied with best practice provision 2.7.3 and 2.7.4. of the 2016 Code.

#### 16. CORPORATE GOVERNANCE STATEMENT

The Decree of December 23, 2004, adopting further rules regarding the contents of the annual report, as most recently amended and extended by the Decree of January 1<sup>st</sup>, 2018 ("the Decree"), requires that a statement is published annually by the Company on its compliance with Corporate Governance regulations in the Netherlands. The Company hereby submits that it has fully complied with this requirement by way of publication of its most recent Annual Report of 2017 and the specific references therein, notably the Report of the Management Board, the Report of the Supervisory Board and the chapters on Risk Management and Internal Controls, Sustainable Development and Corporate Governance, all of which are deemed to be incorporated by reference into the Company's statement on corporate governance as required by the Decree.