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Betreft: VEB vragen AMG Group N.V.

**By e-mail: [lmees@amg-nv.com](mailto:lmees@amg-nv.com) and [info@amg-nv.com](mailto:info@amg-nv.com)**

Dear Management Board, dear Supervisory Board,

The VEB attaches great importance to a public dialogue between shareholders with the company. The upcoming season of shareholder meetings promised to give a qualitative boost to that dialogue due to new laws and regulations that impose requirements on shareholder involvement and transparency and accountability of companies.

The current situation as a result of the Covid-19 pandemic has radically rolled over conditions. A regular dialogue in person cannot take place under the current circumstances. However, the VEB is counting on a virtual interaction between shareholders and representatives of the company during the meeting.

Below you will find several questions, of which we would like to receive substantive answers during the next shareholders' meeting. We would also like to receive these answers in writing. Besides, we assume that the questions and answers provided will also be recorded in the minutes. The VEB is aware of the significant challenges that you currently face.

At your express request, we send you our questions in advance to the shareholders' meeting. The fact that dialogue is not possible or only possible to a limited extent during the meeting that you convene has an impact on the size of the list of questions on behalf of VEB. We count on your understanding. First of all, the VEB draws your attention to a few issues that should help the company and its stakeholders to deal with the current crisis as best as possible. You will find these points for attention in the separately enclosed document 'Algemene aandachtspunten in crisistijd' (in Dutch).

## **QUESTIONS VEB**

### **Agenda item 2.a. Report of the management board for the 2019 financial year including discussion annual report 2019**

1. In the 2019 annual report AMG mentions five risk categories (strategic, operational, market and external, financial, legal and regulatory) as well as 11 principal risks.

We assume that for these principal risks worst case plausible scenarios have been performed. However, a global pandemic has probably not been part of such worst case scenarios.

Could AMG elaborate on scenarios and stress tests that have recently been performed as a result of the outbreak of the Covid-19 pandemic?

2. AMG hasn't included a risk trend for each individual principal risk factor in its annual report. What was AMG's assessment of the risk trend for each individual risk factor as per year-end 2019, compared to year-end 2018.
3. Should this assessment be made again today, for what principal risk factors would the risk trend change, and why?
4. During 2019 the price of vanadium exhibited a sharp drop and has since then shown a moderate recovery. However, the impact of Covid-19 on the aviation sector will likely put vanadium prices further under pressure. Could management elaborate on its expectations for the aviation industry and the likely impact this will have on AMG's financial performance?
5. In 2019 AMG signed a six year contract with Glencore to supply 100 percent of AMG's ferrovanadium production to Glencore.

Could you elaborate more on the price (structure) of the contract? May we assume that the contract is significantly loss-making at current vanadium market prices? What are the options available to AMG so that the negative financial impact can be limited?

6. AMG's end-markets 'transportation' and 'infrastructure' are prone to the effects of the Covid-19 pandemic as shutdowns and reduced air traffic lead to declines in customer activity. How does AMG expect revenues and margins per segment to develop?
7. Despite the positive impact of AMG Engineering on AMG's consolidated results, AMG is exploring a separate public listing of AMG Engineering. In its annual report AMG notes that this division has always acted as an EBITDA stabilizer. What is the strategic rationale of a separate listing of AMG Engineering, and what are the positives for AMG shareholders?
8. How will the Shell and AMG joint venture be accounted for in the AMG annual accounts?
9. Giving the importance AMG attaches to ROCE as a performance metric, could AMG provide a comprehensive buildup of the calculation of this metric?
10. AMG considers its balance sheet as a key competitive advantage, stating it has almost EUR 400 million in freely available cash and undrawn borrowing facilities. How is this presumed advantage impacted by the current economic situation?
11. Does the company foresee any delays in the construction of the Zanesville plant as a result of the lockdowns? If so, could you provide an impact on expected cash flows?
12. The incidence rate has increased during 2019. Could AMG shed some more light on how this could have happened, and which mitigating actions have been taken to increase safety-levels for upcoming years?

13. In the annual report AMG mentioned that three tailings dams in Brazil were investigated by a third-party. According to AMG this study concluded that the dams were legally compliant and technically sound. Are there other critical facilities currently under investigation?
14. AMG's direct carbon-emissions are sizeable, both in absolute as well as relative terms. Which measures have been implemented to mitigate these emissions? What are the odds that AMG's production will be subject to an EU ETS-like system at any point in time?

#### **Agenda item 2.b. Remuneration report of the Supervisory Board for the 2019 financial year**

15. How can it be explained that still 63 percent of the targeted STI remuneration on the ROCE-target was awarded, whereas management performed 'significantly below' target on this metric?
16. Could AMG provide additional insight into the performance incentive zone that was applicable for the cashflow and ROCE targets?

#### **Agenda item 3.a. Adoption of the 2019 financial statements**

Question for the external auditor KPMG

17. KPMG mentions having identified management override of controls as a fraud risk during the audit.

In what specific way was this fraud risk addressed by KPMG in its audit procedures, i.e. what specific procedures were performed to address the risk of fraud?

In this respect, could KPMG elaborate in detail on (i) what manual journal entries have been selected and tested, (ii) how the tone at the top was evaluated, (iii) how the culture of open communication that should discourage management override was assessed and (iv) what internal controls were tested.

18. KPMG states that as part of its evaluation of instances of fraud, KPMG inquired AMG's compliance officers regarding reported incidents and/or speak-up reports.

Could KPMG elaborate on what kind of incidents or speak-up reports these inquiries related to, what KPMG's observations were in this respect and what recommendations were given to the company?

19. From the 2019 auditor's report it appears that the audit coverage for the 2019 annual accounts has changed compared to the 2018 financial statements. With respect to total assets KPMG now reports a coverage of total assets of 81 percent (2018: 70 percent) and with respect to specific items the coverage was 15 percent (2018: 26 percent).

Please elaborate on these differences in coverage for both total assets and specific items. What were the specific items audited for the 2019 accounts, and what were the differences compared to 2018?



**Agenda item 7. Adoption of the remuneration policy for the Management Board**

Statement: *(To be read aloud during the annual general meeting)*

In our view AMG continues to have an overly aggressive remuneration policy. While in general VEB attaches more importance to the structure of the remuneration policy and the applicable performance criteria, we consider the maximum payout to be too high, for example relative to the company's size.

Furthermore, the VEB is not supportive of the inclusion of stock options in the remuneration policy.

For the above mentioned reasons, the VEB has voted against the remuneration proposal.

Nevertheless, we have the following questions.

20. The Supervisory Board states that with respect to remuneration AMG uses a competitive total direct compensation strategy that will help secure top talent. We already noted that AMG's management board remuneration is relatively high.
  - a. Why does the Supervisory Board deem such an aggressive remuneration structure necessary?
  - b. How has AMG's voluntary turnover rate (turnover rate) developed over the past five years?
  - c. Has AMG assessed how its turnover rate compares to peers, or any other selection of companies?
  - d. How has AMG assessed that there is a direct relationship (causality) between the remuneration package offered and the retention of key staff?
21. Will the specific financial and individual targets, as well as corresponding performance incentive zones, for both the STI and LTI metrics be published in the remuneration report as from this year? Can AMG confirm that it will be fully compliant with the newly implemented SRD?
22. With respect to the STI the proposed remuneration policy contains a carbon-dioxide-related metric based on carbon-dioxide savings by third parties/customers from AMG's materials. How does AMG assess these carbon-dioxide savings by third parties?
23. The remuneration policy provides for an equity-based variable compensation as part of the LTI. For this LTI, the at target performance for the CEO corresponds to a pay out of 183 percent of base salary.

Part of this remuneration component is awarded in stock options (the Stock Option Plan). Why has AMG opted for stock options which inherently have an flawed payoff structure?
24. For the Performance Share Unit Plan vesting of shares is dependent on AMG's ranking on TSR relative to a peer group, being the Bloomberg World Metal Fabricate/Hardware Index. This

index contains a broad range of companies, of which 50 are reportedly active in the metal sector.

Why has this broad index, which includes seemingly irrelevant companies, been chosen instead of - for example - the published peer group that was used for the salary benchmarking purposes?

25. The Supervisory Board has the discretion to increase the severance payment of management board members to two times base salary, if one year's base salary would be unreasonable. Under which circumstances would the Supervisory Board find a severance package of one time base salary unreasonable?

#### **Agenda item 8. Adoption of the remuneration policy for the Supervisory Board**

Statement: *(To be read aloud during the annual general meeting)*

The VEB does not support the granting of AMG shares to supervisory board members. In line with the Dutch Corporate Governance Code we are of the opinion that supervisory directors may not be awarded remuneration in the form of shares and/or rights to shares.

For this reasons, the VEB has voted against the remuneration proposal.

26. The proposed remuneration plan for the supervisory directors can be considered generous, with remuneration levels comparable to European large-cap companies. For instance, the proposed remuneration for the chairman exceeds the remuneration paid to the chairman of the Supervisory Board of ASML N.V., one of the largest Dutch listed companies with a market cap far exceeding AMG's market cap.

Could AMG provide a detailed explanation why it has nonetheless chosen to propose this remuneration to its supervisory directors?

27. Could the company provide a detailed explanation for the inclusion of shares in the remuneration of its Supervisory Board members, thereby not just referring to US practices?

#### **To conclude**

The VEB is well aware of the significant challenges you currently face.

We wish you all the strength in this period and look forward to receiving your reply to the above questions.

Yours sincerely,

Dutch Shareholders' Association (VEB)