



PGGM N.V. Annual Report

2018



The original financial statements were drafted in Dutch.
This document is an English translation of the original.
In case of any discrepancies between the English and the
Dutch text, the latter will prevail.

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2018 was an eventful year for PGGM. We developed a new strategy, our service provision was further improved and we realised satisfying results. At the same time, a number of projects progressed less well than planned. That places our business under pressure and has a negative impact on our capacity for change and the financial result.

Excellent performance in our service provision

In 2018, Stichting Pensioenfonds Tandtechniek joined Stichting Pensioenfonds Zorg en Welzijn (PFZW) and service provision to Stichting Pensioenfonds voor Personeelsdiensten (StiPP) commenced. Vermogensbeheer also completed a number of successful joint investments, such as the launch of Urban Retail Ventures. We also won several prizes, including a Customer Award for the 'Met pensioen gaan' ('Retirement') customer journey, the NRC Live Fintech Impact Award for the 'Toekomstverkenner' ('Future Survey') web application and the Gouden Oor 'Excellent Practice' Award for our service provision to PFZW.

Investing in IT

Last year we devoted a great deal of time and energy to modernisation of our basic administration, in order to create a solid foundation for a more robust and flexible pension administration. The process took longer than planned, as the replacements proved to be more complex than had been anticipated. The delay had an impact on the change capacity of our pension administration services. The modernisation project was successfully completed in the first quarter of 2019.

The appointment of a chief information officer to the executive committee (EC) reflects the importance attached to modernisation of the IT organisation, our business architecture and more advanced digitisation.

Technological developments

We aim to respond to innovation and technological developments in order to be able to provide an even better service for participants and employers. PGGM has a special innovation team that, among other things, developed the 'Toekomstverkenner'

('Future Survey') together with PFZW in 2018. This is a free application with which participants can see simply, quickly and safely what early retirement or fewer working hours would mean for their financial situation.

Negative financial result

The operating result for 2018 is slightly negative. This is the result of investments in the business operations, including the modernisation of the basic administration and the completion of the transition of StiPP. These investments are necessary in order to improve the quality of the service provision and to reduce costs. The result

With investments in IT, improved service provision and a clear strategy, PGGM has laid the foundations for the coming years.



Edwin Velzel
Chief Executive Officer, PGGM N.V.

of PGGM is a loss of approximately €11 million. This is primarily due to extraordinary non-operational events such as the parting with our client Stichting Algemeen Pensioenfonds Volo Pensioen (Volo), changes in the tax rates and guarantees from the sale of the life insurance business in 2015. PGGM's financial position is healthy and forms a sound basis for the future.

National and international developments

The Netherlands has one of the best pension systems in the world. We contribute towards the prosperity and welfare of the elderly in our country. A great deal is likely to change in the world of pensions in the near future. The Dutch pension system is under pressure as a result of social and economic developments. We see it as our social responsibility to retain the strengths of the Dutch pension system (mandatory participation, collective implementation and solidarity). At the same time, we must take account of a future in which the current mandatory regulations change. Brexit, the withdrawal of the UK from the European Union, may affect the pension sector on many fronts. The developments may have consequences for among others financial markets, financial agreements and indirectly, for the coverage ratios of our clients.

A new strategy

Together with PFZW, in order to be able to make our contribution in the various future scenarios to participants and the social partners, we are working on a stronger bond with the healthcare and welfare sector and on a flexible and efficient implementation. With our new strategy, 'PGGM, adding value to healthcare and welfare', we have set out on an ambitious course that demands a great deal from employees. Our aim is and will remain to provide a good and affordable pension that above all contributes towards a liveable world.

Stronger bond with healthcare and welfare

Working on stronger customer loyalty calls for a clear strategic choice; we are primarily here to serve the healthcare and welfare sector. That is where our roots are. Together with PFZW, we support the financial future of people who work in the sector and we contribute towards a healthy and vital sector itself. Following this strategic decision, we have shifted our course from a strategy aimed at consolidation in the Dutch pension sector to a strategy aimed at intensification, with a focus on the healthcare and welfare sector. As a result, we will not renew our contracts with Stichting Beroepspensioenfonds Loodsen and Volo. This takes place in close consultation and with full support for a good transition for these clients. We are in consultation with other clients, including Stichting Philips Pensioenfonds and Stichting Bedrijfstakpensioenfonds voor het Schilders-, Afwerkings- en Glaszetbedrijf, about the service provision and contractual conditions, with the intention of renewal.

Flexible and efficient implementation

Flexible and efficient implementation is necessary in order to be able to respond to different scenarios. This applies for the service provision and for schemes that we administer for clients, as well as for our processes and systems. In this way, we are able to adapt our services for PFZW and other clients where necessary. We are in consultation about this with all our clients.

Providing a good and affordable pension

At the end of 2018, we devoted a great deal of energy to translating our strategy into concrete plans for 2019 and beyond. In addition it is good to remain aware of what our *raison d'être* is based on: on our important social tasks and the mandate given to us by our clients. The primary task is to provide for a good and affordable pension.

For health reasons, I was absent for a number of months from 19 October 2018. In the interest of continuity, in order to strengthen the Executive Board and the EC and to pursue the strategy with vigour, Kees Beuving was appointed Deputy CEO at the start of 2019. On 1 April 2019, I took office again as CEO of PGGM.

Edwin Velzel
Chief Executive Officer, PGGM N.V.

Should you have any questions or comments regarding this Annual Report, we would like to hear from you. You can contact us at www.pggm.nl/jaarverslag

PGGM

PGGM is a not-for-profit cooperative pension fund service provider. As PGGM, we offer our clients (and their participants) asset management, pension administration and board advisory services.

Asset management

We support pension funds with fiduciary management and asset management. We invest the collective pension assets cost efficiently. We do that in accordance with the investment policy desired by the pension fund, with attention to a good financial and socially responsible return and rigorous risk management. Fiduciary management and advice help our clients in their role as clients across the board. This means both providing advisory services and the implementation thereof. The management activities relating to the execution itself are risk management, the management of overlay portfolios and selection and monitoring of external managers.

Read more about asset management at www.pggm.nl/vermogensbeheer

Pension administration

We help our clients with the implementation of their pension scheme and with the communication with their participants. Pension funds can count on us for reliable service using proven systems. Our administrative systems were developed from the perspective of providing adequate and efficient pension administration services.

In performing our services, our aim is to work with our clients to provide high-quality service at an appropriate cost level. Our clients have access to our knowledge, pension experience and experience communicating with participants.

Read more about pension administration at www.pggm.nl/pensioenbeheer

Board advisory services

We advise the board of our clients on their pension schemes and on the financing thereof. We do this by providing legal, tax and actuarial advice and recommendations about asset liability management, risk management, financing policy and current themes. We devote a great deal of attention to the practicability and comprehensibility of the advice and to the pension and financing policy to be developed on this basis. We have the knowledge and competencies required to advise clients across the board.

Read more about our board advisory services at www.pggm.nl/bestuursadvisering

PGGM Coöperatie

PGGM Coöperatie U.A. (PGGM Coöperatie) was formed in 2007 by the social partners in the healthcare and welfare sector. The members of the cooperative are employees and pensioners in the sector.

Members' council

PGGM Coöperatie has two management bodies; the members' council and the cooperative council. The members' council is the most senior body of the cooperative, consisting of 45 members. The members' council represents the approximately 755,000 members of the cooperative.

Cooperative council

The cooperative council consists of an independent chair and twelve representatives of the social partners in the healthcare and welfare sector that the cooperative jointly formed: six from employers' organisations and six from employees' organisations. The cooperative council is responsible for PGGM Coöperatie's identity, mission, vision and (financial) policy frameworks and is accountable for this to the members' council. The cooperative council is also the sole shareholder of PGGM N.V.

PGGM&CO

PGGM&CO is the members' organisation of PGGM Coöperatie. PGGM&CO promotes ties between members and PGGM N.V. and among members themselves, for example, by creating online communities on topics that are relevant to members. In addition, PGGM&CO, in collaboration with partners, develops supplementary products and services for its members under the theme 'Vitality in Retirement'.

PGGM N.V.

PGGM N.V. (PGGM) is a wholly-owned subsidiary and the service provider of PGGM Coöperatie. As PGGM, we work on behalf of our clients. Our core business is pension administration.

Supervisory Board

The Supervisory Board consists of six members and has two committees: the audit, risk and compliance committee and the remuneration, selection and appointments committee.

The Supervisory Board oversees the operations of the Executive Board of PGGM N.V. and the general affairs of the company. In addition, the Supervisory Board indirectly supervises the Executive Committee (EC). In addition to members of the Executive Board, members of the EC also attend Supervisory Board meetings. The remuneration committee also holds annual meetings with EC members, in addition to meetings with members of the Executive Board. Finally, the Supervisory Board is directly involved in the appointment, the suspension and the dismissal of all EC members.

Executive Committee

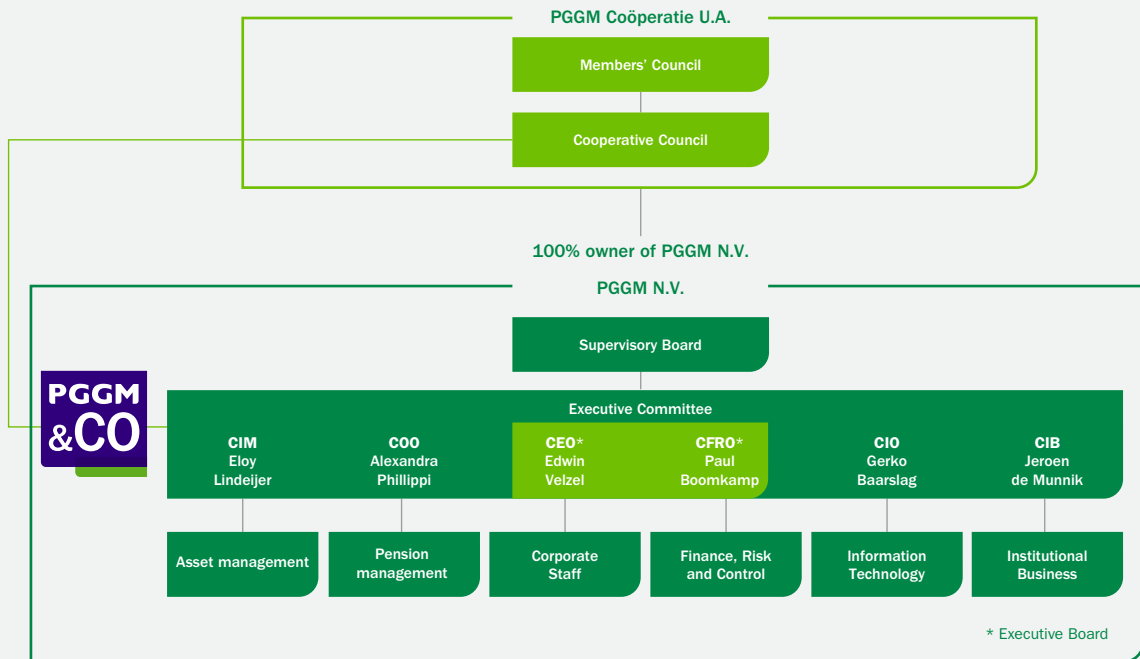
The EC is responsible for the day-to-day management of PGGM. The EC comprises six members, including two members of the Executive Board, namely the chief executive officer (CEO) and the chief financial & risk officer (CFRO). Furthermore, the responsible officers from the business units for pension administration and institutional client management also have seats on the EC. These are the chief operations officer (COO), the chief investment management (CIM) and the chief institutional business (CIB). A new COO was appointed in 2018 and the EC was expanded with a chief information officer (CIO). The CIO is responsible for Information Technology (IT) within PGGM. The Executive Board is ultimately responsible for PGGM. The Executive Board can be called to account by both the shareholder and the Supervisory Board. In 2010, PGGM chose to follow the EC model, because PGGM's management and business operations come together in a single team this way. The focus here is on the client and PGGM's key functions are represented.

Client council

The client council responds to our ambition of translating the cooperative principles into service provision to and interaction with and among institutional clients. Representatives of our institutional clients are members of the client council.

The client council advises the EC on matters such as service provision, product development, strategy and the result appropriation. The EC also shares information with the client council about the direction the organisation is pursuing and how we face the future together with our clients.

PGGM Organisation chart

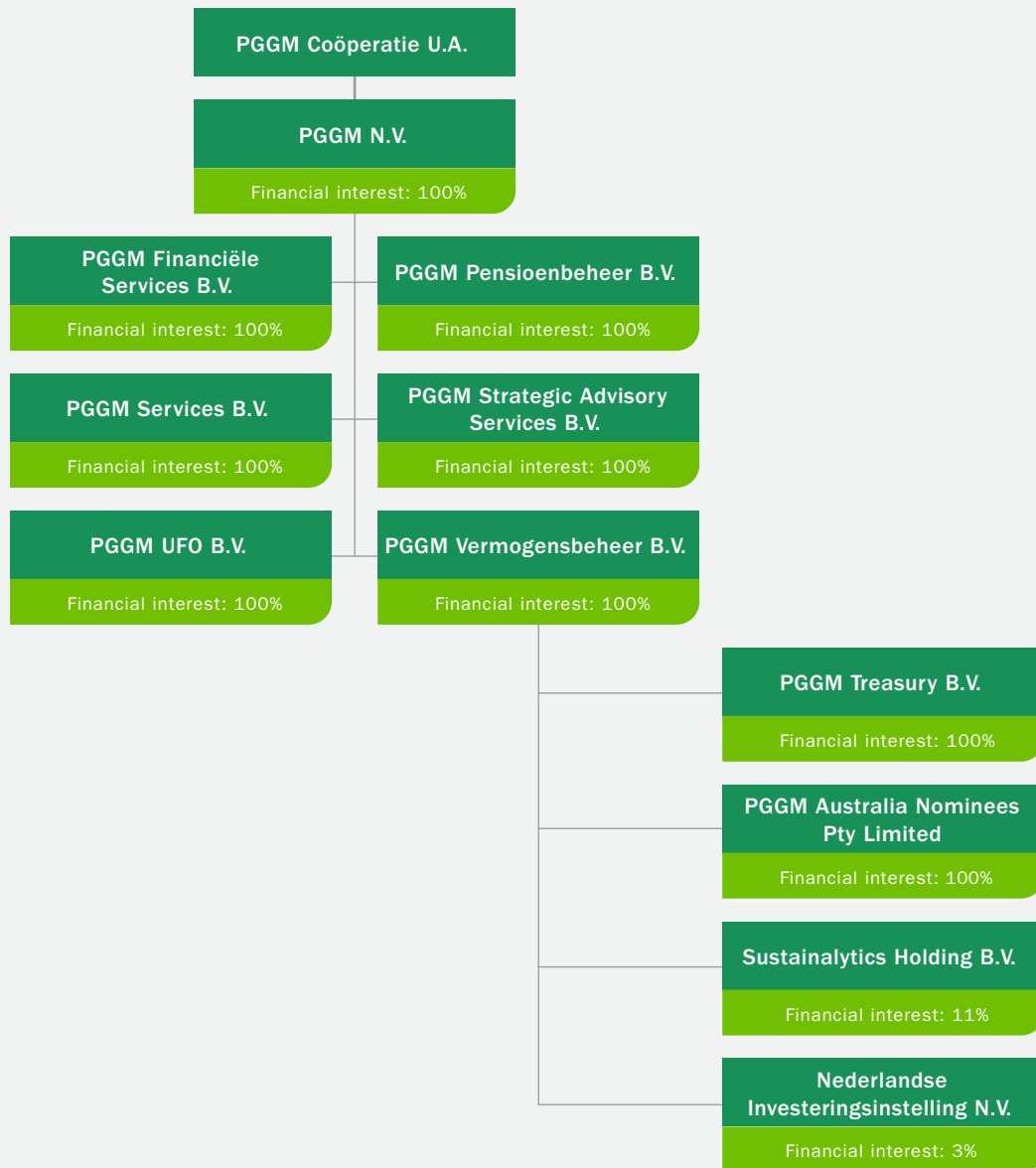


Group structure

The pension fund service provider PGGM has a two-tier board and is the holding company of eight (in)direct subsidiaries and two minority interests. Together with its shareholder, PGGM Coöperatie,

this forms the PGGM Group. A number of subsidiaries have a licence from the Netherlands Authority for the Financial Markets (AFM). When the legal structure was set up, it was decided that the various licences should be linked to individual companies.

Group structure PGGM



Key figures

Key figures			
	2018	2017	2016
Annual revenue (in millions of euros)	278.7	265	263.6
Net Result (in millions of euros)	-11.2	2.9	1.3
Number of clients	11	11	9
Number of participants (* million)	4.4	3.0	2.9
Assets under management (in millions of euros)	210.9	218.6	205.8
Customer satisfaction	7.4	7.2	6.8
Number of FTEs at year-end	1,497	1,372	1,322
Male/female distribution general	61%/39%	62%/38%	61%/39%
Male/female distribution at management level	68%/32%	69%/31%	68%/32%
Male/female distribution direct reporting to the EC	65%/35%	62%/38%	65%/35%
Personnel expenses (in millions of euros) ¹	159.2	156.8	153.5
Number of members of PGGM&CO	755,000 approx.	740,000 approx.	710,000 approx.

1) Concerns salary expenses, pension charges, social security expenses and other employee expenses

Pension fund clients of PGGM in 2018

	Services				
	Board advisory services	Pension administration	Asset management	Number of participants	Managed assets (in millions)
Stichting Pensioenfonds Zorg en Welzijn	✓	✓	✓	2,796,300	199,002
Stichting Bedrijfstakpensioenfonds voor het Schilders-, Afwerkings- en Glaszetbedrijf	✓	✓	✓	109,000	6,957
Stichting Pensioenfonds voor de Architectenbureaus			✓	*	2,265
Stichting Pensioenfonds voor Huisartsen	✓	✓	✓	20,100	1,331
Stichting Pensioenfonds Smurfit Kappa Nederland	✓		✓	*	651
Stichting Bedrijfstakpensioenfonds voor de Particuliere Beveiliging			✓	*	413
Stichting Algemeen Pensioenfonds Volo Pensioen	✓	✓	✓	2,900	294
Stichting Beroepspensioenfonds Loodsen		✓		1,300	*
Stichting Pensioenfonds voor Personeelsdiensten	✓	✓		1,326,600	*
Stichting Philips Pensioenfonds	✓	✓		99,800	*
Stichting Rabo PGGM Premiepensioeninstelling	✓	✓		42,400	*

*Data not known. PGGM does not provide this client with any services.

We are PGGM. Adding value to healthcare and welfare.



Our vision and strategy

We are PGGM. Adding value to healthcare and welfare. We work for a good, affordable and sustainable pension for our clients and their participants. We also contribute towards a liveable world, occupational health and vitality in old age.

Our pension system

The Netherlands has one of the best pension systems in the world. We contribute towards the welfare and social care of the elderly in our country. In the sector that is most important for us, the healthcare and welfare sector, the average old age pension of participants consists of about two thirds of the state pension and about one third of the pension accrued with Stichting Pensioenfonds Zorg en Welzijn (PFZW). The combination of the income-dependent state pension and the usually mandatory company pension means that participants expect to receive a pension that is based on the average salary earned during their working life.

Confidence under pressure

Despite the strengths of the Dutch pension system (mandatory participation, collective implementation and solidarity), there will be necessary changes in the coming years. The current system is not sufficiently consistent with social developments, such as increased labour market flexibility, individualisation and a need for greater transparency. Furthermore, the long-lasting low interest rates place the system under pressure

financially. The inability to index and the threat of cuts in pensions reduces the confidence of participants. The circumstances lead to increasing pressure from politicians, supervisory authorities and public opinion to change the system. Together with our clients, we try to retain the strengths of the existing system. At the same time, we take part in an intensive exchange of ideas concerning the necessary modernisation of our system. For if we want to maintain the good Dutch pension, we need to adapt to changing circumstances.

Optimally prepared for the future

As the decision on the pension scheme and its administration shifts from branches of industry to sectors, employers or even to employees, it becomes an increasingly difficult challenge for us to reach these decision-makers. In order to be able to keep pace, we must prepare for a potentially more complex distribution issue and the supply of more pension schemes.

PGGM, adding value to healthcare and welfare

With our new strategy, 'PGGM, adding value to healthcare and welfare', we have made a clear choice. We are primarily here to serve the healthcare and welfare sector. Together with PFZW, our most important client, we support the financial future of people who work in the sector and contribute towards a healthy and vital sector itself. In order to help realise our ambitions, we offer our services, knowledge and experience to other clients.

This means that we have shifted our course from a strategy aimed at consolidation in the Dutch pension sector to a strategy aimed at intensification, with a focus on the healthcare and welfare sector. Flexible and efficient implementation is also necessary in order to be able to respond to different scenarios. This applies for the service provision and for schemes that we administer for clients, as well as for our processes and systems.

Our working method

We believe in pensions that you arrange together. For by sharing costs and risks, we are stronger together and ultimately everyone is better off. We therefore regard it as our social responsibility to retain the strengths of the Dutch pension system. We realise that we work with money that does not belong to us. That awareness makes us supportive. This means that we aim for the best service provision and keep a close eye on the costs: best-in-class asset management and excellent pension administration and services that continually positively surprise employers, employees and pensioners.

We want to set the tone in sustainable investment. Good returns take priority. At the same time, we know that a good pension is worth more in a liveable world. This is why we invest for the long term on behalf of our clients. We take into account the impact on people and the environment, with special attention to healthcare, climate, food security and clean water.

As investor, we have a global influence on a large number of businesses. We use that influence to encourage sectors where a great deal is still open for improvement onto the right track. We are openly accountable concerning the dilemmas that this sometimes creates.

We contribute towards occupational health and vitality in old age. The healthcare sector is under pressure. The work pressure is high and the retirement age is continually rising. This translates into high sickness absences and many unfilled vacancies, among other things. With additional services, we aim to mitigate these problems and reduce their social costs.

Our values

Supportive

Our raison d'être is based on our social tasks and the mandate given to us by our clients. Our primary task is to provide for a good and affordable pension. We also go the extra mile with additional services that can promote health and vitality. We are supportive in everything we do, without losing sight of ourselves. We are client-oriented and professional. Our stakeholders know exactly what they can expect of us.

Responsible

We know and accept our responsibility, both jointly and individually. After all, we work with money and data that have been entrusted to our management. Our stakeholders must be able to rely on us treating us as good stewards. In order to meet our responsibilities, we call each other to account constructively and help each other.

Our responsibility also means that we always take account of the consequences of our actions for people and the environment, now and in the future. We act not only on the basis of procedures and protocols, but also on the basis of our knowledge and common sense.

Steadfast

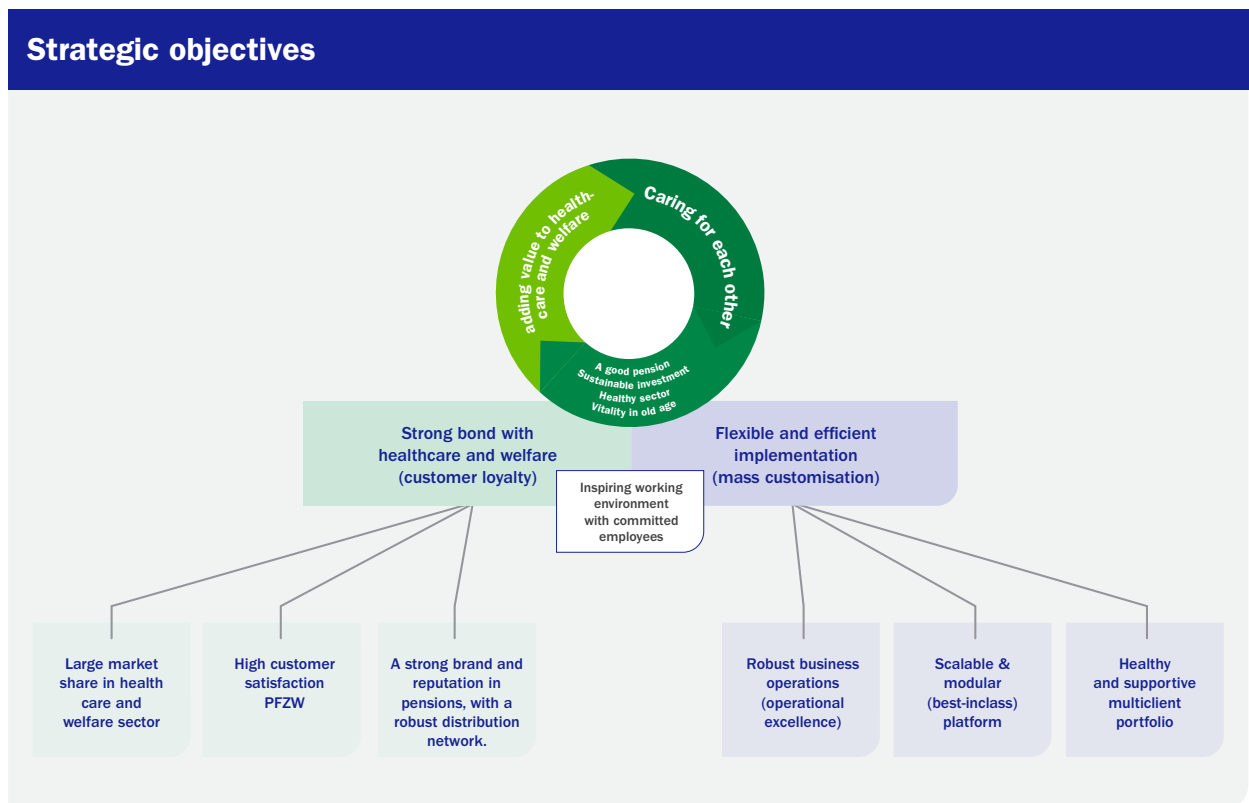
We stand for the interests of our clients and their participants. And we stand for a collective pension system with solidarity. We know what we have to do and what is required. We ensure robust, future-proof business operations. Focus, simplicity and persistence are the guiding principles here. We use our influence as a leading long-term investor and do not avoid our responsibility, even if that is not always the easiest course.

Caring for each other

On the basis of our desire to ‘Care for each other’, we aim for a good pension, sustainable investment, a healthy sector and vitality in old age. In doing so, PGGM is and will remain a value to healthcare and welfare. In order to achieve this, we have formulated two strategic objectives: a strong bond with healthcare and welfare (customer loyalty) and flexible and efficient implementation (mass customisation). On the basis of these two strategic objectives, we have defined the following six sub-objectives:

1. Robust business operations
2. A scalable and modular platform
3. Healthy and supportive multi-client portfolio
4. Large market share in healthcare and welfare sector
5. High customer satisfaction PFZW
6. A strong brand and reputation in pensions, with a robust distribution network.

From 2019 we will steer on these sub-objectives. We do this in an inspiring working environment with committed employees.



Impact of strategy on our clients

Our strategy is aimed at simplification of the services, as a result of which PGGM is and will remain operationally and financially attractive for our clients. We are already engaged in discussion about this with all our clients.

Following this strategic decision, we have shifted our course from a strategy aimed at consolidation in the Dutch pension sector to a strategy aimed at intensification, with a focus on the healthcare and welfare sector. As a result, we will not renew our contracts with Stichting Beroepspensioenfond Loodsen and Volo. This takes place in close consultation and with full support for a good transition for these clients. We are in consultation with other clients, including Stichting Philips Pensioenfond and Stichting Bedrijfstakpensioenfond voor het Schilders-, Afwerkings- en Glaszetbedrijf, about the service provision and contractual conditions, with the intention of renewal.

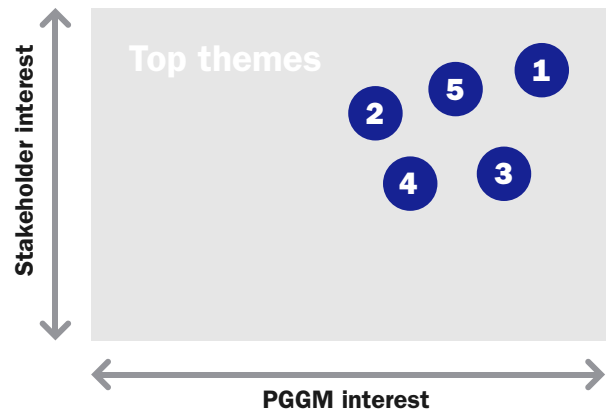
If pension funds have an affinity with healthcare and welfare and wish to join the scheme of PFZW, we are happy to discuss this with them. The same applies for pension funds that wish to join schemes of our other clients. As a result of a group value transfer, Stichting Pensioenfond voor de Tandtechniek made the transfer to PFZW in 2018. For asset management, pension funds can place services with PGGM.

Interests of our stakeholders

In order to ensure that PGGM's policy matches the needs and requirements of our main stakeholders, such as our clients and supervisors, we draw up a materiality matrix each year. The materiality matrix contains the themes that are of material importance to PGGM and to which our stakeholders attach the greatest value. These are translated into the annual objectives for which we steer.


The main themes in 2018 were developments in pension system, reliable service provision, asset management, pension administration and robust business operations. These main themes are the subjects of the chapters in our directors' report.

Top themes materiality matrix 2018



- 1 Developments in pension system
- 2 Reliable service provision
- 3 Asset management
- 4 Pension administration
- 5 Robust business operations

Directors' Report



PGGM aims to retain the strengths of our pension system.

Developments in pension system

Demographic, labour market and social developments are placing our existing pension system under pressure. Furthermore, the long-lasting low interest rates place the system under pressure financially. The inability to index and the threat of cuts in pensions reduces the confidence of participants. At PGGM, we aim to retain the strengths of the system. We are also preparing for different future scenarios. In the interests of our clients, we are also taking measures against a potential hard Brexit. In addition, we support the interests of sustainable financing, realising a sustainable economy and coming closer to the Paris climate targets.

Continued talks on pension system

Unfortunately, talks on the reform of the pension system in the Social and Economic Council (SER) and between the government and the social partners have not yet led to an agreement. The obstacles ultimately lay less at the level of the pension schemes in the second pillar, but mainly in related areas such as the state pension, penalties for early retirement and pensions for the self-employed. Continuation of the talks is necessary in order to realise a pension system that is consistent with current social, economic and political circumstances. Together with Stichting Pensioenfondsen Zorg en Welzijn (PFZW), we want to remain involved in the talks. We will continue to work closely here with relevant parties in the pension sector.

Sustainable financing

The importance of sustainability is growing in the financial sector. With the [Pension Funds International Responsible Business Conduct Covenant](#) (Pension Funds IRBC Covenant) signed in 2018, the pension sector took a major step forward in the field of responsible investment. When companies cause serious negative impacts on society or the environment, it is up to pension funds to call companies in their investment portfolios to account for this.

In March 2018, the European Commission published an action plan for Financing Sustainable Growth, consisting of policy and legislative proposals. It proved to be an ambitious plan in which a great deal is expected of financial institutions, including pension funds. We are closely involved in the legislative process and are collaborating in Brussels with the technical development of the European proposals.

Consequences of Brexit for the pension sector

Brexit, the withdrawal of the United Kingdom (UK) from the European Union, can affect the pension sector on many fronts. The developments can have consequences for other financial markets and financial agreements and indirectly for the coverage ratio of our clients. In view of the unpredictable outcome and in the interests of our clients, we are preparing for the consequences of Brexit. The focus lies here on the impact of Brexit on our counterparties and service providers and the measures that they will take in the run-up to Brexit. Only a complete Brexit deal will make these measures unnecessary. A complete Brexit deal means a clear transitional period with prospects of a future relationship between Europe and the UK. This scenario has the least impact in economic terms.

We are working on improving the service we provide. This is reflected in our customer satisfaction.

Chris Limbach,
Managing Director Asset Management Advice

Reliable service provision

We work together with our clients to provide high quality service. We remain innovative in the fields of advice, online service concepts and responsible investment. Customer satisfaction regarding the current level of service has risen slightly in 2018. We also won a number of prizes.

Distinctive service provision

In order to ensure that clients continue to choose PGGM, we are working on further flexibility and innovation in our service provision. The existing services are being improved and new services are being developed for this purpose. As a result for example, we will be able to make knowledge and data available for important labour market issues in the fields of vitality and mobility.

Together with PFZW, we won the second prize in the Customer Award for the 'Retirement' customer journey. We also received the Gouden Oor 'Excellent Practice' recognition for service provision to PFZW. Personal recognition was received in the form of an oeuvre prize for the contribution to the pension sector and an award for the best investment professional.

New investment policy for PFZW

Together with PFZW, we designed the integral responsible investment policy and instruments in 2018. This policy provides a framework for further development of responsible investment policy and implementation, which provides for more effective realisation with a greater focus in responsible investment. The new policy framework is also easier to explain to participants and stakeholders. Through the additions and changes, the overall

policy was expanded to include the guidelines of the Organisation for Economic Cooperation and Development (OECD). This is in accordance with PFZW's wishes and in line with the draft texts of the Pension Funds IRBC Covenant signed in 2018. There is still a great deal to work out in terms of follow-up policy and implementation. This is a process of continual improvement.

Simplification of pension schemes

In close cooperation with PFZW, we took the first steps towards a simplification of the pension scheme and pension administration in 2018. The plan is to implement several technical execution improvement proposals in 2019. The simplification contributes towards lower costs of participants of PFZW for quality that at least remains unchanged.

We are also working on simplification of execution with other clients, including Stichting Philips Pensioenfondsen and Stichting Bedrijfstakpensioenfondsen voor het Schilders-, Afwerkings- en Glaszetbedrijf.

Customer satisfaction

The service level reports (SLRs), showing the extent to which the agreed standards for service provision are realised, are discussed in regular talks with the client. Attention is given to the causes of the 'red' scores and the actions to be taken to comply with the standard again. The 'green' scores and the standards attained are also considered. The agreed standards are monitored with the client team that is set up for every client. The client team works intensively with the client and is continually in discussion with the client about requirements and improvements. The majority of the standards agreed in the SLRs in 2018 were attained. The customer satisfaction score in 2018 was 7.4. As a result, we have continued the rising trend that we saw in 2017.

Unfortunately, a number of incidents occurred in the service provision in 2018. The main incident in 2018 concerned incorrect mandatory pension communications for a specific group of participants at one of our clients. The errors were corrected. In accordance with our advice, the relevant client reported this incident to the supervisory authority. An investigation has been conducted into the causes of the incident and measures have been taken in order to prevent such incidents in the future.

In 2018, PGGM added value for our clients in relation to the benchmark. At the request of our clients, we also worked on investment solutions in the past year that not only realise the pension ambitions but also contribute towards a liveable world. As part of the new strategy, we aim for flexible and efficient implementation. We achieve this through Vermogensbeheer by investing more ourselves and increasing using fund solutions.

Public investments

Vermogensbeheer is subdivided into public and private markets within PGGM. Investments in public markets, which we manage both actively and passively, account for the majority of our client portfolios. Within the public markets platform, we invest on behalf of our clients in investment categories such as listed shares, government bonds and corporate bonds.

Private investments

Within the private markets platform, we actively invest in non-listed investment categories for our clients, such as infrastructure, real estate and private equity. Private investments help our clients to achieve the required investment yields and to realise a tangible impact on the real economy, including in the Netherlands. In the current financial markets, interests and returns are lower than in the past. These investments offer our clients a solution for this. Due to their long-term character, private investments are a good fit with the longer investment horizon of pension funds. We also help our clients to contribute towards a liveable world. We do this by investing in e.g. rented care homes, wind farms, food producers and drinking water facilities.

Renewed support system for private investments

In 2018, the introduction of an administrative and risk management system for support for a large part of the private investment categories was completed. As a result, we withdrew a number of applications. Work on simplification of the back office systems also took place, in order to be more agile to future developments.

Fewer external managers for private investments

We are reducing the costs and improving the transparency and manageability of private investments by investing more ourselves rather than via external managers or funds. A good example of this is our growing infrastructure team which, together with other long-term investors, invests directly in infrastructure companies. The optimisation of the risk-return profile of the growth of the private property investment portfolio was also realised successfully this year. By investing more via joint venture structures with strategic partners instead of via the conventional funds model, control over investments has increased further. The costs have also been reduced and better implementation of specific client wishes, such as the implementation of CO₂-reducing measures, was realised.

Market developments and risks

Tax reductions in the US, the deferred Brexit deal and the financial developments in Italy contributed to a slight downward adjustment of growth expectations for developed countries in 2018. 2018 was the first year since 2011 that global stock markets were negative over the year. Some emerging economies had a difficult year. China, for example, suffered a delayed credit growth, a gradual escalation of the trade war with the US and the rise of the US dollar. The fall in market prices and the higher growth expectations for company profits led to a sharp fall in price-earnings ratios in the past year. Despite the gradual phase-out of monetary policy, long interest rates in the euro zone fell slightly.

Positive investment return

Despite the poor investment year, PGGM Vermogensbeheer was able to sustain its position well, with added value for a large proportion of the investment portfolio. In particular, PGGM outperformed the benchmark in the private markets. As a result, Credit Risk Sharing Transactions realised an outperformance of 11 percent, the PGGM Infrastructure Fund exceeded the benchmark by 4 percent and the PGGM Private Real Estate Fund outperformed the benchmark by 3 percent. Public markets presented a more diverse picture: in the stressful market, the PGGM Developed Markets Alternative Equity II Fund showed its value by realising a return almost 2 percent higher than the benchmark. However, the mandate for Investment in Share Solutions trailed its benchmark by 2 percent and Emerging Markets Credits also had a difficult year with an underperformance of almost 1 percent. In general, PGGM Vermogensbeheer was able to realise on average a higher return than the relevant client-agreed benchmarks.

In turbulent investment markets, PGGM Vermogensbeheer was able to add value for our clients.

Hans Op 't Veld
Head of Responsible Investment



Climate change, risks and opportunities

We regard climate change as one of the major long-term risks for the investments. The latest report of the Intergovernmental Panel on Climate Change (IPCC) underlines the urgency of the need for additional measures. The report points out the major physical risks, even if global warming remains limited to 2 degrees Celsius. Like most economists, we take the view that better pricing of CO₂ and other greenhouse gases is the more effective and fair measure for counteracting the warming of the planet. We believe that such pricing is in due course inevitable. We are therefore already taking steps to make the investments more robust, by investing in the most CO₂-efficient companies within sectors. Thanks to our years of experience in investing in reinsurance products of natural disasters, we are able to anticipate the consequences of an increase in extreme weather conditions to other parts of the

portfolio and to protect our investments more effectively against these influences.

A major energy transition is necessary in order to stop climate change. The transition offers opportunities for investors in areas including energy conservation, energy

efficiency, generation and storage of renewable energy. The PGGM investment teams actively seek out these opportunities, including under the Investment in solutions mandate. We do this on our own or with partners. A good example of the latter is the announcement of Shell and PGGM concerning a joint bid for Eneco.

In order to accelerate the energy transition and ensure that investment opportunities arise, we are working on areas including CO₂-pricing and the development of standards such as via the Task Force on Climate-related Financial Disclosures (TCFD) and the Technical Expert Group of the European Commission.

A more detailed report on our focus on climate-related risks and opportunities according to the TCFD framework is available in a separate document on our [website](#).

Investment transactions

One of our biggest real estate investments in 2018 was an investment in rented apartments in Manhattan. Due to the low rental vacancies and the growth opportunities in New York, these residential properties are expected to generate a stable and growing cash flow for our clients.

The PGGM Private Equity Fund (PGGM PE) made several investments on behalf of our clients in the past year. For example, investments in Equistone Fund VI, which focuses on fast-growing medium-sized European companies. The Private Equity team also made an investment in the Littlejohn Fund VI.

Together with Redevco B.V. we launched Urban Retail Ventures, with a value of €550 million, in 2018. The basis of the joint venture is the acquisition on Promenade Saint-Catherine, a large-scale urban plan in the centre of Bordeaux. Together with Urban Retail Ventures, we are aiming to reduce CO₂ emissions within the portfolio to zero in 2030.

Since August 2018, we have held a 10% interest in the Puget Sound Energy (PSE) energy company. PSE plays an important role in energy supplies in the North West of the US. The company aims to halve its CO₂ footprint by 2040. This investment is in line with PGGM's ambition, as a pension investor, to make more long-term investments for our clients in renewable energy projects and companies.

In this way, we can deploy the pension capital of our clients in a profitable manner for the financing of the energy transition.

On behalf of our clients, PGGM Infrastructure Fund acquired a 50% interest in a portfolio of EDF Renewables in 2018. This portfolio consists of three wind farms and two solar power plants. The total new energy generation capacity is 1 GW.

PGGM investment awards received in 2018

Extel Award: best individual investment professional in the Netherlands

Extel Award: best individual analyst in Europe in the Food category

Extel Award: best Dutch company on the 'buy side' (investors and asset management)

VBA thesis prize of the CFA Society VBA Netherlands

Investing in the Netherlands

A strong and sustainable Dutch economy contributes to a valuable future for pension participants. This is why our clients believe it is important to invest in the Netherlands. These are for example investments in regular real estate and infrastructure. On behalf of our clients, PGGM invested in the upgraded Afsluitdijk in 2018, together with companies including the construction company BAM; in both construction and maintenance for the coming 25 years. The new Afsluitdijk gives a boost to the regional economy by fleshing out ambitions in the fields of green energy, nature, recreation and tourism.

Focus in 2019

In 2019 the focus will be on the development of the investment teams and processes towards best-in-class, shown by both internal and external reviews. In addition to executing clients' investment ambitions, we are working at Vermogensbeheer on improving the IT systems and processes and on making them scalable. For example, we aim to make the service provision and business operations more flexible. From product management, we are working on completion of the investment solutions for a pension system with more individual choices and features.

Responsible investment

We are convinced that responsible investment, with a view to Environmental, Social & Governance factors (ESG-factors), realises an optimal return within a responsible risk profile. We also believe that this makes a positive contribution to a sustainable, liveable world in which participants can enjoy a good pension.

We use six instruments for the execution of responsible investment. These instruments are deployed to stimulate social solutions, take account of ESG factors in investment decisions, encourage companies to apply sustainability improvements and to exclude companies if they perform activities that we do not wish to support from PGGM. For targeted realisation of the contribution that we, as an asset manager and manager of investment institutions (PGGM investment institutions) wish to make to a sustainable world, seven social priority areas have been chosen in liaison with our clients. The focus here lies within the responsible investment activities.

Responsible investment 2018

AUM: €210.8 billion

Priority areas

Climate change, pollution and emissions



Water scarcity



Food security



Healthcare



Human rights



Good corporate governance



Stable financial system



Instruments



Investing in Solutions

Mandate: at least €20 billion invested in solutions in 2020¹

14.5 billion

2017 13.7 billion

€ 20 billion²

New in 2018: €2 billion

Priority area	Euro's invested	New in 2018	Impact in 2017 ³
Climate change, pollution and emissions	€ 7.7 billion	€ 1.3 billion	11.4 million MWH for renewable energy produced and 4.9 million tons CO₂ emissions avoided
Water scarcity	€ 1.2 billion	€ 405 million	73 million m³ of water saved and 363 million m³ water treated
Food security	€ 2.5 billion	€ 109 million	75,000 tons yield improvement
Healthcare	€ 3.0 billion	€ 146 million	487,000 people provided with access to good healthcare and 7,100 hospital admissions avoided
Other	€ 100 million		



ESG integration

Mandate: relative CO₂ footprint of the investment portfolio halved in 2020

Benchmark on 31.12.2014 in the share portfolio:

relative CO₂ footprint = 339 tons of CO₂ per million dollars of company revenue.

On 31.12.2018, the relative CO₂ footprint = 239 tons of CO₂

29.5 %



Engagement

Dialogue conducted with 291 companies and 8 market parties

27 results at companies

0 results at market parties



Voting

Voted at 3,877 general meetings of shareholders

43,109 votes cast



Legal proceedings

€5.8 million of investment loss recovered through legal proceedings



Exclusions

Total: 114 companies and government bonds of 13 countries

¹ On commission from our biggest client.
² For all clients, in both the funds and separate mandates. The amounts concern the invested assets and outstanding commitments.

³ The impact is measured for the investments at year-end 2017. Of the €13.7 billion in BiO investments, the impact has been calculated of €9.3 billion in investments (68% of the total BiO investments). The impact coverage is not the same for each priority area.
⁴ On commission from our biggest client.

Sustainable financing

Following the 2018 signed [Pension Funds IRBC Covenant](#), pension funds are working together with the government, trade unions and social organisations. 73 pension funds, representing a joint invested capital of 1,180 billion euros, have signed the covenant, including the following PGGM clients: PFZW, Stichting Bedrijfstakpensioenfondsvoor het Schilders-, Afwerkings- en Glaszetbedrijf, Stichting Pensioenfondsvoor Huisartsen, Stichting Pensioenfondsvoor de Architectenbureaus and Stichting Algemeen Pensioenfondsvolo Pensioen. In the past year and a half, we have been intensively involved in the realisation of the covenant, under the leadership of the SER. In the coming four years, together with the clients that have signed the covenant, we will work on implementing the covenant and so raise responsible investment to an even higher level.

The European Union is also developing an ambitious plan for sustainability in European financial markets. PGGM is closely involved in the legislative process. We are collaborating in Brussels with the technical development of the European proposals. We support the interests of sustainable financing and at the same time emphasise that the shared objective must remain clear: the realisation of a sustainable economy and coming closer to the Paris climate targets.

In order to stimulate responsible investment and to realise changes together, we play an active role in different networks and alliances with institutional investors. In 2018 we supported a request from, among others, the [Institutional Investors Group on Climate Change](#), which encourages government agencies to take concrete measures to realise the targets of the Paris agreement. We have also joined the collective engagement initiative [Climate Action 100+](#) (CA100+). CA100+ is a five-yearly initiative aimed at making the 100 companies that make the biggest contribution to global emission of greenhouse gases more sustainable.

Investing in solutions

On behalf of our clients, we [Invest in Solutions](#) in the areas of climate and environment, water, food and healthcare. We do this through private markets as well as public equity. At year-end 2018, €14.5 billion was invested in these solutions.

In 2018, we made new investments in areas including solutions in the climate field. We acquired shares in Suez Water Resources Inc. The American company supplies 2.1 million people with drinking water, making it one of the largest private water companies in the United States.

Investment in sustainable development

In 2015, the United Nations set up 17 [Sustainable Development Goals](#) (SDGs). In 2017, together with APG, we developed a framework for investments that contribute to sustainable development: Sustainable Development Investments (SDIs). In 2018, we defined the contribution of the portfolio to the sustainable investment goals for the first time. At the end of 2017, on behalf of our clients, we had invested more than 15 percent of the total assets under management in companies and projects that contribute towards sustainable development. By providing this insight, we offer our clients the opportunity to determine the extent to which they are willing and able to increase their contribution to the development goals. This also makes the extent of the 'SDG alignment' of the portfolio comparable with that of other financial institutions.

The social impact of our Investments in Solutions

In addition to the financial contribution to social solutions (invested capital in euros), the social impact of these investments is calculated. We want to know what the tangible impact of our investments is (in absolute units such as kilograms of CO₂ emissions avoided, or numbers of prolonged human lives).

This is essential, both for transparent communication about the positive impact of the pension investments and for the credibility of investment with impact. We therefore work closely with academics and other partners to develop appropriate methods. Together with UBS Asset Management, City University of New York and Harvard University, we worked in 2018 on a methodology to measure impact, with which we can compare companies in terms of impact per invested euro. The company revenue from solutions is converted into absolute impact. With the Impact Management Project, we have also defined the entire portfolio in terms of effects on people and the planet. The objective of this alliance is to reach harmonisation of a number of shared basic principles for how we talk about measurement and management of impact and our objectives and performance.

ESG integration

In order to assess whether ESG factors are material for a specific investment, we set up processes in which investments take place. As a result, ESG factors are no longer an ad hoc element, but are integrated into the investment process. The approach varies per investment category. This difference is due to the degree of influence that we have on the investment process from PGGM, for example through internal or external management. Whether passive or active investment strategies are involved also makes a difference.

In addition, the effect of ESG factors on the investment category plays a role, such as risk avoidance versus improvement of returns.

This year, we defined the physical climate risks, such as flooding and extreme weather, for the real estate portfolios. Together with our investment teams, we have also defined goals aimed at improving ESG knowledge and reviewing some of the existing methods. We developed a matrix that is used to assess our internal teams and to compare these with external colleagues.

The purpose of all these activities is to realise or retain a top level that ultimately leads to more sustainable investments and a better impact on the world.

In 2018, we progressed with the reduction of CO₂ in the equity portfolio. As a result, the CO₂ footprint was reduced from 339 tons of CO₂ per million euros of corporate revenue at the end of 2014 to 239 tons of CO₂ at the end of 2018.

We also encouraged funds and companies in the real estate portfolios to reduce their CO₂ emissions. Our real estate funds once again outperformed the Global Real Estate Sustainability Benchmark, which compares funds in terms of sustainability. A growing number of our investments are classed as Green Star, the most sustainable category.

Active shareholdership: voting and engagement

Via our engagement activities, we call companies and market parties to account for their policies and activities. Via this dialogue, we try to realise improvements in the field of ESG, such as changes in behaviour or activities. By voting on shareholder proposals, we attempt, on behalf of our clients, to exercise influence on companies to encourage them to adopt more sustainable policies. In 2018, we voted on 3,877 shareholder proposals.

Discussion with Greenpeace

In July, Greenpeace protested with a leaking pipeline in front of the entrance to the PGGM offices. The activists were protesting against the investments in companies that lay pipelines, which are used partly to transport shale sand oil. In constructive talks with Greenpeace, PGGM explained the CO₂ reduction policy. Read our detailed [statement](#) on this on our website.

Legal proceedings

As a shareholder, we conduct legal proceedings against companies on behalf of our clients. We do this when it is necessary to recover investment losses or to enforce good corporate conduct. In 2018, we conducted seven legal proceedings on behalf of our clients. We started action against the mining company BHP Billiton. In 2015, the Fundao dam in Brazil, of which BHP Billiton is a joint owner, collapsed. As a result, a toxic mudflow arose and a village was destroyed. There are strong indications that BHP Billiton was already aware of the risks relating to the dam. By failing to disclose this information, BHP Billiton violated its disclosure obligations. In addition to the above catastrophic consequences, investors suffered losses as a result of that violation.

Exclusions

We want to avoid making investments that are deemed unacceptable to our clients. This is why, in accordance with the PGGM Exclusion Implementation Guideline, we exclude companies that are involved in controversial weapons and tobacco production. We may also exclude government bonds of countries that are subject to sanctions from the UN Security Council and/or the European Union.

Read more about our activities, results and focus in 2018 in the field of responsible investment in the Responsible Investment Annual Report.

See [verantwoord beleggen](#)

In 2018, we implemented a service within Pensioenbeheer whereby we can record and analyse client interactions through all channels. We also set up the system for working with client journeys. Furthermore we developed the Toekomstverkenner together with PFZW. The modernisation of our basic administration system progressed less smoothly than planned. The modernisation project was completed successfully in the first quarter of 2019. As a result of the new PGGM strategy, we began a new project for Pensioenbeheer: Pensioenbeheer van de toekomst. In order to keep the service provision flexible and cost efficient, it is necessary to design the organisation in a way that enables us to meet future demand for custom services and differentiation.

Client journeys

Employees accrue pension over a long period, during which important events take place. In order to be able to respond well to this, we design our service provision on the basis of client journeys. Within these client journeys, different departments work together, as a result of which communications are increasingly better directed at the individual participant or employer. The online service provision becomes increasingly intuitive and self-sufficiency grows. This leads to greater client satisfaction, a better image for the fund and lower administration costs.

In 2018, we implemented the customer engagement suite, a service with which we can record and analyse client interaction through all channels. We also set up the Klantreisfabriek (Client Journey Factory) to organise working and thinking about the client journey. There are a number of employees within PGGM trained in 'design thinking', a way of thinking through which problems are solved in a practical and creative manner. A number of employees are learning to work with the client interaction technology. We will apply the working methods developed in the Klantreisfabriek within PGGM more frequently in 2019.

Result

6.5 billion in premiums
Administration of 4.4 mln participants
2.3 mln uniform pension statements sent
565,000 pension payments

New administration system

In 2018, we continued with the modernisation of one of our pension administration systems. We did not make as much progress with this as planned. The process took longer, as the complexity of the replacements exceeds the estimates we made in advance. The new pension administration system for the service provision to StiPP is currently in use.

Technological innovations

We conducted experiments relating to the themes of Data, Blockchain and Artificial Intelligence. For example, we investigated the impact that trends and themes have on our clients, the existing business models and PGGM itself.

The PGGM Datalab

We continued conducting experiments relating to data services in 2018. This involves for example pension-related data or labour market information.

This is data that is interesting in itself, but which can also lead to new insights in combination with other data. This helps to further sharpen our service provision. We set up a data lab for this purpose, in order to create space for innovative experiments. The purpose of this is to solve concrete business problems, develop new propositions and acquire knowledge of new technologies. The PGGM Datalab offers our organisation a facilitating environment in which both existing and temporary multi-disciplinary teams work on projects.

Toekomstverkenner

We developed the Toekomstverkenner (future explorer) together with PFZW and its participants. This is a free application with which participants can see quickly, simply and safely what early retirement or fewer working hours would mean for their financial situation. These are questions that concern growing numbers of participants, in view of the increasing pressure of disability on work.

After a successful pilot scheme, the Toekomstverkenner has been further developed over the past six months following feedback from about 10,000 participants. In the latest version, it is also possible

to include the impact for a partner, which was a concrete request from the pilot group.

With the Toekomstverkenner, participants and their partners can gather all their personal financial data within five minutes in a secure DigiD environment. This therefore includes other income, mortgages and savings. These are combined from files from the Tax and Customs Administration, mijnpensioenoverzicht.nl and the Employee Insurance Agency (UWV). Participants can immediately see what their financial situation is at present, when they reach the age of entitlement to the state pension and if they decide to work fewer hours or retire early.

The web application was placed online by PFZW in October 2018 and has since won three prizes: from the PensioenWegwijzer, the communication prize at the Pension Pro Awards and the NRC Live Fintech Impact Award. There is considerable interest in the application in the pension sector. We will consider how we can enable other pension funds to benefit from the Toekomstverkenner.

Experimenting with blockchain

In 2018, we continued blockchain experiments with pension administration organisation APG. Within the Pensions Infrastructure project, we worked on the further development of the first blockchain prototype. This pilot study demonstrated the strategic value of blockchain.

VERA

From our Techruption alliance, we worked on the Virtual Emotion Recognition Assistant (VERA) process in 2018.

This is an artificial intelligence pilot study aimed at improving service provision to the participants of our clients. The ultimate goal is to improve customer satisfaction.

You can learn to innovate

We developed a training in 2018: You can learn to innovate. In this training course, employees learn how they can apply an innovative way of thinking and working in this changing world. This internal masterclass offers a summary of lessons from the innovation world. The training course will be further developed in 2019.

Focus 2019

We expect the modernisation of the pension administration system to be completed in 2019 and that we can continue the line of Future-Proof Enterprise Architecture. We are working on flexible, digital and efficient business processes that are supported with a transparent, secure, manageable and adaptable system landscape and a well-designed data management system.

With innovations and technological developments, we improve communications with participants and employers.



Martin Rijnsburger
Director Marketing & Communications

Robust business operations

The 2018 operating result of PGGM was slightly negative. In the interests of our clients, we have made substantial investments in IT in order to improve the quality of service and reduce future costs. The total result of PGGM in 2018 was sharply negative. This was partly due to a number of extraordinary items. PGGM's financial position is healthy and forms a sound basis for the future. In addition to good technical preparation, it is extremely important in a changing pension landscape that we are flexible and able to change. Therefore we invest in our employees and encourage diversity within our organisation.

Financial business operations

Business result

The net result for 2018 as a whole amounted to -11.2 million euros and was therefore sharply lower than in 2017 (2017: 2.9 million euros). This negative result was due to a number of extraordinary items.

Operating result

The operating result of PGGM for 2018 as a whole was slightly negative (-0.9 million euros). The income rose in 2018 by 14 million euros in comparison with 2017. This was due primarily to the expansion of our services to existing clients and the start of our service provision to Stichting Pensioenfondsen voor Personeelsdiensten (StiPP). The delay in the modernisation of our basic administration system led to higher costs for temporary employment of IT staff and testing capacity within Pensioenbeheer. Consequently, the operating result in 2018 was several millions lower than was estimated in advance. Through active steering for and prioritisation of resources, the operating loss remained limited.

Non-operational events

Extraordinary non-operational events such as the parting with our client Stichting Algemeen Pensioenfondsen Volo Pensioen (Volo), changes in the tax legislation and guarantees from the sale of the life insurance business had a negative impact on the non-operational items in comparison with 2017.

Solvency

PGGM's solvency as at 31 December 2018 was 69.8 percent (2017: 82.8 percent). Solvency is calculated as the ratio of equity and the balance sheet total. Solvency was lower due to an increase in current liabilities. As a result, the balance sheet total rose while equity fell. Other liabilities, accruals and deferred income rose by 36.2 million euros. This was due to the amounts pre-invoiced and received, totalling 28.5 million euros.

Cash

Cash increased by 54.8 million euros in 2018. The increase resulted from an improvement in the cash flow from operational activities. In addition this relates to received and pre-invoiced fees from clients. Net cash amounted to 133.1 million euros as at 31 December 2018 (31 December 2017: 78.3 million euros).

Difficult decisions

In daily pension administration practice, certain developments can confront us with difficult decisions. These are choices in which we must carefully consider the appropriate action, despite our clear policy. We wish to be open and transparent about these decisions. One of the developments in 2018 was the delay in the modernisation of our basic administration system.

Options included stopping the project or involving other parties in the project. Ultimately we decided on new steering and a different approach. According to the plans, the new basic administration will go into production in 2019.

Read more about our financial position in the 'Financial Statements' chapter.

Investment in future business operations

Within PGGM, Vermogensbeheer and Pensioenbeheer work together to implement our strategy and make optimal use of the IT possibilities. The appointment of Chief Information Officer Gerko Baarslag on 1 November 2018 helps us to give more focus to the essential attainment of the next level in the IT organisation.

New internal business operations system

At the start of 2019, we commissioned a new system for our financial administration, purchasing and project administration. As a result, the financial administration, contract management, the creditor administration, project administration and time registration are all in a single system. This saves costs and reduces the operating risks, so that flexibility is increased and complexity reduced.

Security of information

We made progress in the field of security of information. We also made a start to implementing the cyber security road map. The purpose of the road map is to remain flexible in the future in the face of the growing threat from cyber criminals. Our own capacity for preventing damage through cyber incidents has increased and has been thoroughly tested by an external party.

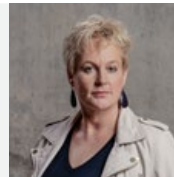
We also procured extra cyber-security services.

The computer emergency response team of PGGM is connected to a European network for incident response. As PGGM, we comply with the information security standard that De Nederlandsche Bank (DNB) imposes on pension funds. In response to the development of a Future-Proof Enterprise Architecture, we took steps in the field of data management, including the formation of the Corporate Data Management Office. We also started with the Application Programming Interface (API) which we use for internal and external links. The API management system makes it easier to work together securely.

Flexibility and behaviour

A flexible organisation is an organisation that can implement changes efficiently and that innovates

and experiments strategically. The employees keep pace with what the situation requires of them. They help us to become more customer-oriented, cheaper and more flexible. Collaboration is crucial here.



In order to be successful, collaboration, daring to make mistakes and drive are essential.

Manon Pernot
Managing Director People & Organisation

The right people in the right place

At PGGM, we aim to ensure that the right people with the right competencies and the right behaviour are in the right place. Employees are continually encouraged to work on their sustainable employability. In this way, we encourage inflow, advancement and outflow. In 2018, we once again compared our organisation's current workforce with the desired situation over a period of a few of years. Qualitatively as well as quantitatively.

This creates a picture of the difference between the current and the desired staffing. On this basis, we will continue to steer on staffing. Naturally in consultation with the employee.

Employee development

The PGGM Academy offers, designs, advises and coordinates education and training programmes that contribute to the professional growth of employees. These programmes can help employees continue to effectively carry out their jobs, as well as to advance to another position internally or external to PGGM. The courses provided by the Academy are based on employee needs and our strategic objectives. We work together with renowned trainers in this area, but we also regularly use internal employees to share knowledge and to make use of the knowledge we already have in-house. In 2018, there were more than 2,000 applications from employees for enrolling in courses offered by the PGGM Academy. The highest need was for knowledge concerning agile working and pension.

We have a two-year trainee programme. As well as a personal development process, the trainees acquire a great deal of work experience during these two years. They work on various projects that increasingly match up with personal competencies and ambitions. This enables trainees to discover the best place for themselves within PGGM.

We consider it important that employees, on the basis of strengths and with energy, work individually or together on PGGM's and our clients' objectives. This requires employees to not only understand their profession, but also to work on their ability to change and to retain vitality. At PGGM, we do this with the Fit for the Future programme. In this programme, employees are encouraged to think about their fit with their work, and how to monitor and retain this fit. But they are also required to consider the vitality aspect: how will employees remain fit at work now that they are working for longer? Together with our group health insurance insurer CZ and the Arbodienst Beter occupational health and safety service, we therefore organised the Health & Energy Event in 2018.

Focus in 2019

Our long-term goal is an inspiring working environment with engaged and driven employees, aimed at results and development through collaboration. In 2019 we will focus on activities and interventions as close as possible to daily practice. For example, we have opted for an approach aimed at implementing simplifications and accelerating problem-solving. We also devote attention to leadership and to organisational analysis and design.

Key figures Employees and training costs

Distribution of employees by department	2018 Numbers	FTEs	2017 Numbers	FTEs
Institutional Business	161	157	153	148
Pensioenbeheer	490	447	448	405
Vermogensbeheer	363	373	344	347
PGGM&CO Members' Organisation	19	19	19	19
Information, Finance, Control	383	373	371	363
Corporate Staff Services	81	77	93	90
Total	1,497	1,446	1,428	1,372
Full-time/part-time distribution				
Full-time	1,091		1,055	
Part-time	406		373	
Total	1,497		1,428	
Male/female distribution				
Male	919		879	
Female	578		549	
Total	1,497		1,428	
Age distribution				
Younger than 25	31		26	
25-34	305		279	
35-44	419		404	
45-54	505		475	
55 and older	237		244	
Total	1,497		1,428	
Staff turnover				
Opening balance	1,428		1,375	
Joined PGGM	239		209	
Left PGGM	-170		-156	
Status at year-end	1,497		1,428	
Absence due to illness	2.7%		3.1%	
Education/training expenses	€2,656,578		€2,615,206	

Diversity

We consider diversity within our organisation important. We are convinced that diversely-compiled teams deliver better results and contribute more to the realisation of our vision and strategy. The more diverse the employees in an organisation, the more talent and competencies it has at its disposal. That makes the organisation stronger, more flexible and effective. This is why we promote diversity. Part of this is our approach

aimed at increasing the number of women in influential positions.

This led to an increase in the number of women in management positions to 32 percent in 2018.

With the appointment of Alexandra Phillippi as Chief Operations Officer on 1 May 2018, a woman joined the EC.

As such, the current composition unfortunately does not yet meet the requirement for a balanced distribution of seats pursuant to the Governance Code (minimum of 30 percent occupied by women and a minimum of 30 percent by men). With future changes, a balanced distribution of seats will be taken into account. The ratio of women on the Supervisory Board is more than 30 percent.

In the past year, we again made efforts to offer work to people at a distance from the labour market. With the Make It Possible programme, we offer work experience placements at various places in the organisation. We did not achieve our ambition of 20 placements in 2018. It proved to be more difficult than expected to realise the placements.

Focus in 2019

In 2019, we will continue to make efforts for people at a disadvantage in the job market. Our aim is 20 placements via the Make It Possible programme. We also continue to devote attention to the inflow, advancement and outflow of employees, stimulating diversity in terms of culture, age, education, work experience and gender.

Employee participation

We aim for the optimal involvement of our employees and continually seek opportunities to improve employee participation in our organisation. Participation in decision-making in PGGM is the joint responsibility of the Works Council, management and employees. We also have an employee participation secretary, who supports both the Works Council and the management.

We use an employee participation model based on a modern and proactive view. Aside from the 10 core members of the Works Council, there is room for special members who provide input for one of the monitoring committees and so influence decision-making. The Works Council also makes use of relevant specific employee knowledge.

This enables all employees, managers and directors to become involved in requests for consent and advice.

In 2018 the Works Council again provided sound advice on complex issues with the involvement of the employees. Adopting additional and sometimes differing recommendations from the Works Council improves decision-making. For example, after extensive research and various meetings with HR Policy, the Works Council advised against a change to acceptance of the full risk of benefit payments under the Return to Work (Partially Disabled) Regulations (WGA). The EC accepted the advice of the Works Council and decided not to make the change.

Focus in 2019

The Works Council also anticipates a number of requests for advice and consent in 2019, partly as a result of our new strategy. Optimisation of employee participation remains of the greatest importance here and is a priority for the Works Council. The engagement and feedback in response to requests for advice and consent, as well as in the day-to-day decision-making is a key factor for PGGM for successful and transparent employee participation.

Remuneration policy

We aim for a transparent, responsible and sustainable remuneration policy: fair remuneration for measurable performance. The way in which performance is achieved (competences and values) is also taken into account in evaluations and consequently in the remuneration. Our Individualised Performance-Related Pay policy is in line with our strategy, risk appetite, cooperative objectives and core values. In the remuneration policy, the interests of the client are key and our long-term interests and relevant laws and regulations are taken into account. This policy applies to PGGM and its subsidiaries. For the total remuneration at PGGM, we use the median of the appropriate reference markets as a guide. This is tested externally periodically.

For the remuneration of the members of the Executive Board, see the appendix 'Report on the Remuneration of the Executive Board'.

Variable remuneration

We grant one-year variable remuneration to senior employees working in the investment chain. Other employees are not eligible for variable remuneration. We voluntarily opted to also limit the one-year variable remuneration to a maximum of 20% of the annual salary for everyone, partly on the basis of our position in society.

Deferred Variable Income

In addition to one-year variable remuneration to a maximum of 20 percent, there is the possibility of granting employees in the investment chain a Deferred Variable Income (DVI). The DVI is a form of deferred remuneration. This is paid out after a multi-year deferral period after the year in which the key performance indicators (KPIs) applicable to attaining the DVI were achieved. A condition for payment of the DVI is that the organisation is sufficiently solvent and no particularities have arisen since the granting of the DVI which could prompt discussion as to whether the remuneration should still be granted. The total of the one-year variable remuneration and the DVI on an annual basis can never exceed 100% of the fixed salary. The KPIs for the one-year variable remuneration and DVI must be derived from the objectives of the clients, PGGM, the business unit and the department and must be at least 50 percent based on non-financial criteria.

Deferred Performance Interest

In addition to employees in the investment chain who qualify for the remuneration components described above, a number of employees in the Private Equity Team participated in the Deferred Performance Interest (DPI) scheme in 2018. Under this DPI scheme, conditional variable remuneration can be awarded to these employees of a maximum of one year's salary, depending on the investment result. This amount is then reinvested in the Private Equity Funds and is paid out after about 10 years, including compound interest.

After new intake for this scheme had already been stopped, participation of the employees in the scheme was terminated in 2018. The terms of employment were harmonised with the regular remuneration policy for the investment chain and agreements were reached on any differences.

Year-end bonus

Until 2017, the collective labour agreement (collectieve arbeids overeenkomst (cao)) stated that PGGM can increase the year-end bonus by a flexible portion to a maximum of 2 percentage points. The increase is only paid out if the operating result after tax in a given year is higher than zero and depending in part on client satisfaction. The EC decides whether this additional payment is granted. In 2018, the EC decided to make a payout of 1 percent for 2017, as part of the cao agreement. This increase was removed from the cao from 2018.

Gratuity

All PGGM employees who do not receive any form of individual variable remuneration can receive a gratuity on account of exceptional dedication and/or performance.

Publication requirements

Our website contains the publication requirements according to Section 1:120 of the Wft.

Read more at www.pggm.nl/jaarverslag

Focus in 2019

In 2018, we experienced growing pressure on our remuneration package for a number of specialised jobs. In view of our new strategy, we will review the group-wide remuneration policy in 2019. The principle here is that the reviewed remuneration policy must enable us to implement our strategy successfully. In addition, the remuneration policy must be consistent with the risk appetite, cooperative objectives and core values of PGGM.

Variable remuneration paid out (x €1000)

Distribution of variable remuneration by type	2018	2017
One-year variable remuneration investment chain paid out *	3,539	3,126
DVI paid out **	-	834
Gratuity paid out	547	363
Flexible year-end bonus paid out	838	-
Total variable remuneration paid out ***	4,924	4,323

Number of beneficiaries

Distribution of number of employees per variable remuneration paid out	2018	2017
One-year variable remuneration investment chain	192	179
DVI	-	29
Gratuity	196	131
Flexible year-end bonus	1,398	-
Total number of beneficiaries	1,786	339

* One-year variable remuneration paid out in relation to the previous financial year. One-year variable remuneration paid out in 2018 therefore relates to the 2017 performance year and one-year variable remuneration paid out in 2017 relates to the 2016 performance year.

** DVI paid out in 2017 relates to the DVI granted in 2014-2016. As a result of a change in the DVI scheme in 2015, no amounts were paid out in 2018.

*** Amounts are shown exclusive of pension and social security costs.

Corporate social responsibility

We are a business that assumes its responsibility, engages in dialogue with its stakeholders and which has sustainable business at its core. In addition, we play an active role for society. We deal responsibly with the resources entrusted to us by the clients. We also take a critical look at the impact of our own actions on the environment and society.

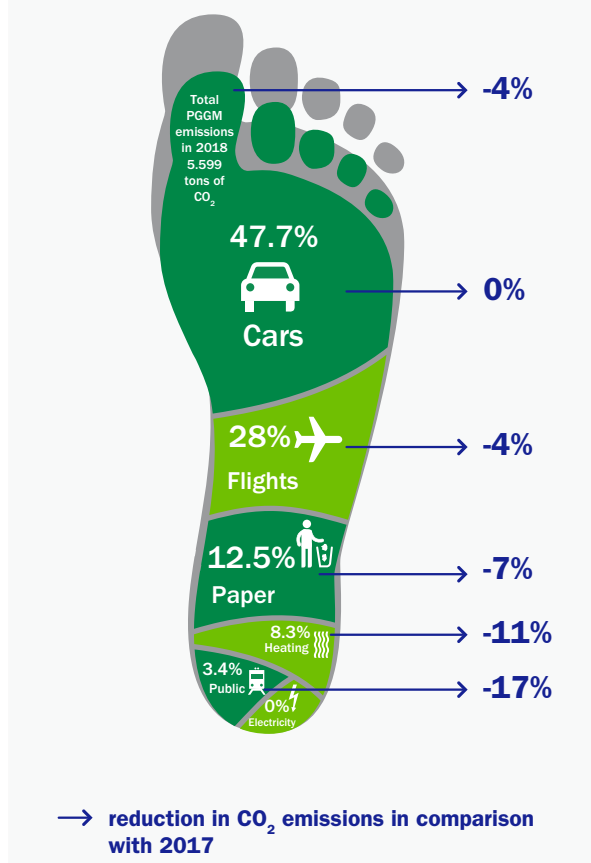
Reducing our footprint

We measure the impact of our business operations on the environment, expressed in the form of CO₂, with our CO₂ footprint. Our objective is to lower our CO₂ emissions. In 2018, we adopted the ambition to limit CO₂ emissions from our lease cars to 50 grams (WLTP standard) in three years. We also issued lease car drivers with an NS business card, in order to make the use of public transport more attractive. We started a pilot project for cyclists.

With Trappers, a remuneration and stimulation system, you can accrue value points by cycling. The value points can be spent in a web shop or be paid out.

Our total CO₂ emissions in 2018 amounted to 5,599 tons. This represents a reduction of 4 percent in comparison with 2017. Our CO₂ emissions were lower as a result of our flights and the reduction in our use of paper.

CO₂ footprint 2018



Compensation for CO₂ emissions

We compensate any CO₂ emissions we cause. We do this for the CO₂ emissions caused by our gas consumption, our business trips by car, our use of public transportation, business flights and our paper consumption. In 2018, we compensated for our emissions through an active contribution to making aviation more sustainable by supporting the KLM Corporate BioFuel Programme. Thanks to the BioFuel Programme, we realised a reduction in CO₂ emissions of 86.67 metro tons on business flights by employees in 2018.

Circular economy

PGGM pursues a socially responsible procurement policy. We want to effectively work together in the chain from production to end use. This is why we are devoting increasing attention to circular procurement. We have made specific agreements with suppliers about the return of resources and materials such as mobile devices and project tables, so as to give them a new life or have them

removed as a raw material. In addition, every year we organise a round table in which we engage suppliers in a discussion on social themes, so that we make a difference within the chain as well.

FinanCE working group and other activities

In 2014, we created the international FinanCE working group, which 20 financial institutions from 10 countries have since joined. In 2018, the working group presented a paper on circular financial guidelines. The working group also reviewed its mandate and now focuses on four work flows in the circular economy in relation to financial issues: the macro-economic (system) change, financial engineering by the company, financial engineering by the financier and classification and impact. Within the Expert Panel of the European Commission, of which PGGM is a member, we worked on the analysis of how incentives can primarily support the linear economy in our economic system rather than a circular economy. This knowledge is urgently needed in order to accelerate the change.

Focus in 2019

In 2019, we will make an active contribution to the final report of the Expert Panel of the European Commission. We will also continue to work on the mandate. We will further reduce our own footprint through reductions in the field of mobility. Clients can expect us to make the risks and opportunities of climate change transparent and to give advice on how to include this in policy and execution. We aim to help them in a way that fits with their profile, (investment) convictions and possibilities.

Retiring with vitality

Vitality in the labour market means remaining both physically and mentally fit until retirement age and concerns the vital position of people in the labour market. In the healthcare and welfare sector, there are 72,000 disabled employees, around 60,000 absentees (due to illness) each day and more than 100,000 vacancies. This causes many problems. For PFZW, which insures disability, an improvement in vitality is also crucial. Together with PFZW, we therefore implement the Retiring with Vitality programme. In 2018, we organised a major Retiring with Vitality congress in our building. Successful vitality interventions were shared here with healthcare employers.

The fight against dementia

At PGGM, we aim to increase awareness of dementia. For both those suffering from the disease and those closest to them. We help by calling attention to dementia and informal care. In addition, we donate money for research.

In 2018, we were involved in the executive management of the Dementia Delta Plan, the Dutch national plan in the fight against dementia. We also made an active contribution to the Samen Dementievriendelijk (Dementia-friendly Together) programme. With Alzheimer Netherlands and the Ministry of Health, Welfare and Sport, we recruited more than 160,000 people since the start of the Samen Dementievriendelijk campaign in 2016, including a number of our own employees, to support the programme and increase their knowledge of dementia by following an (online) training course.

Informal care-friendly company

The healthcare and welfare sector is the main provider of informal carers. As many as one in three employees in the sector combine work with informal care. This makes heavy demands, with all the attendant consequences. Our internal and external efforts in the field of informal care led to our recognition as an Informal Care-Friendly Company at the end of 2017. We continue to seek ways to make the combination of employment and informal care easier.

Together with WeHelpen and CZ, we developed and implemented a new internal platform in 2018 under the name '1-moment'. This platform is designed to motivate PGGM employees to help each other with non-work-related jobs.

Focus in 2019

In 2019, we want to make a specific impact on the complex vitality issue via cooperation for example with the government. We will also investigate possibilities for international cooperation. We will remain active in the fight against dementia on both the management and the practical level through our involvement in the Deltaplan Dementie and the Samen Dementievriendelijk programme. We will also continue to seek ways to help informal carers to combine their excellent work for those closest to them with their jobs in an effective way. We do this not only for our own colleagues, but certainly also for the employees in the healthcare and welfare sector.

Zeist, 17 April 2019

Executive Board:

Edwin Velzel (CEO)

Paul Boomkamp

Report of the Supervisory Board

In this Annual Report, the Supervisory Board explains how it carried out its supervisory role and how it supported the Executive Board by providing advice over the past year. The report also discusses the most important substantive matters in which the Supervisory Board was involved this year. In performing their duties, the supervisory directors are guided by the interests of the company and the businesses affiliated with it. The Supervisory Board supervises the Executive Board's policy and the general affairs of the company and its affiliated businesses. The Supervisory Board has appointed two committees from among its members: the Audit, Risk and Compliance Committee (ARC) and the Remuneration, Selection and Appointments Committee (RSB).

The Supervisory Board looks back on an exceptional year in which the focus lay on a number of key issues:

- New strategy
- Renewal of pension system
- IT
- Governance
- Conduct and soft controls.

Highlights 2018

In 2018, the new strategy, 'PGGM, adding value to healthcare and welfare' was adopted in consultation with the Supervisory Board. With this strategy, a clear choice is made for the healthcare and welfare sector. This means that our course has been changed from a strategy aimed at consolidation in the Dutch pension sector to a strategy aimed at intensification, with a focus on the healthcare and welfare sector. As a result, our contracts with Stichting Beroepspensioenfond Loodsen and Volo will not be renewed.

Flexible and efficient execution is necessary in order to be able to respond to different pension scenarios.

This applies for the service provision and for schemes that are administered for clients, as well as for our own processes and systems. In order to be able to keep pace, we must prepare for a potentially more complex distribution issue and the possible administration of several pension schemes.

A great deal of energy was devoted to translating the strategy in terms of concrete plans. The service provision to our clients and the impact of the strategy on our clients was also an important point for attention for the Supervisory Board and was regularly discussed with the Executive Board, both in and outside the meetings. The service provision proceeded smoothly in 2018. The service provision for Stichting Pensioenfond voor Personeelsdiensten began, Vermogensbeheer made successful joint or individual investments and a number of successful technological innovations were realised, such as the Toekomstverkenner (together with PFZW).

In the second half of 2018, the Supervisory Board was faced with the fact that CEO Edwin Velzel was absent due to illness.

He took leave of absence from 1 November 2018. The Supervisory Board is exceptionally grateful for the way in which CFRO Paul Boomkamp and the members of the EC were able to absorb this. At the end of 2018, the Supervisory Board took a decision to appoint a deputy CEO for PGGM N.V in order to lead the further development of the long-term strategy of PGGM set out in 2018 during Edwin Velzel's recovery period. This decision was implemented in early 2019 with the appointment of Kees Beuving. Edwin Velzel returned to work as CEO of PGGM on 1 April 2019.

During the past year, the Supervisory Board noted together with the Executive Board that the pressure on business operations is high as a result of the changed laws and regulations, requirements of our clients, implementations of new clients and current IT and other programmes.

These programmes are necessary to make the business operations future-proof in relation to the new strategy and any renewals of the pension system. Work was devoted to modernisation of our basic administration in 2018, in order to create a solid foundation for more robust and flexible administration of pensions. PGGM has made less progress with this than planned. The delay had an impact on the change capacity of our pension administration services. The delays in this project called for a number of difficult decisions. A choice was made for a new approach, as a result of which, according to the plans, the new basic administration will go into production in 2019. A great deal of attention was also devoted to the inter-relationships of projects within PGGM and the coordination, feasibility and design of management measures. Governance was also strengthened with the appointment of a Chief Information Officer (CIO) to the executive committee (EC).

Behaviour and supporting soft controls are important aspects in the realisation of strategic

objectives. A cultural change is needed in order for the organisation to become more client-oriented, cheaper and more flexible. This item is continually on the agenda of the Supervisory Board.

Composition of the Supervisory Board

All members of the Supervisory Board are independent, within the meaning of the Dutch Corporate Governance Code. On the appointment of its members, the Supervisory Board aims for a complementary Board composition. This is included in the profile of the Supervisory Board. Diversity in terms of culture, age, education, work experience and gender is appropriate here. Effective from 1 January 2018, the percentage of women on the Supervisory Board was more than the required 30 percent.

A number of changes to the Supervisory Board occurred in 2018. The deputy chair of Supervisory Board, Wim de Weijer, stepped down on 1 April 2018. At the request of the Supervisory Board,

Wim served as the deputy chair until a new Supervisory Board chair was found. The Supervisory Board would like to express its exceptional gratitude to Wim for his long-term efforts and contributions. Wim de Weijer was succeeded as Chair of the Supervisory Board on 1 April 2018 by

Marjanne Sint. Wanda van Kerkvoorden stepped down from the Supervisory Board on 30 August 2018, on the expiration of her last term of office. The Supervisory Board would like to express its thanks for her input in recent years. Micky Adriaansens was appointed as a member of the Supervisory Board on 1 January 2018. Henk Broeders joined the Supervisory Board on 1 November 2018, to fill the vacancy arising as a result of Wanda's departure.

The supervisory directors who joined the Board in 2018 followed an intensive induction programme.

The Supervisory Board has confidence in the new strategy adopted in 2018. This offers a solid foundation for the future with a focus on the healthcare and welfare sector.

Marjanne Sint
Supervisory Board Chair of PGGM N.V.



Attendance at regular meetings

The Supervisory Board held five regular meetings and three extra meetings in 2018. Members of the Executive Board and the EC attended the meetings of the Supervisory Board. The relationship with the Executive Board and the EC is perceived as good and transparent. Extra meetings were convened due to changes in

the composition of the Supervisory Board and the EC, the new strategy and the partial absence of the CEO, Edwin Velzel, in 2018, due to illness. In addition to the meetings, various talks were conducted for this purpose by members of the Supervisory Board. No supervisory directors were frequently absent from the meetings of the Board. If members were absent, they made their contribution prior to the meeting.

Supervisory Board meetings									
Meetings in 2018	Total	Wim de Weijer (until 1/4)	Marjanne Sint (from 1/4)	Miriam van Dongen	Eric de Macker	Jan van Rutte	Micky Adriaansens	Wanda van Kerkvoorden (until 30/8)	Henk Broeders (from 1/11)
Supervisory Board	8	2	7	6	8	8	7	3	3
ARC	6	1	4	6	-	6	-	1	1
RSB	5	-	3	-	5	-	5	3	-

Topics on the agenda of regular meetings in 2018

Fixed agenda items at each regular meeting are external influences, the business operations, the state of affairs concerning our clients, the relationship with PFZW, the strategy of PGGM and the innovation and change capacity.

In addition to the annual discussion and approval of the directors' report, a review of the financial results and the key risks associated with the business operations is conducted every quarter on the basis of the performance and audit reports. Attention is also devoted to customer satisfaction on a quarterly basis.

In 2018, the Supervisory Board was closely involved in the formation of the new strategy, including the impact of this strategy on the clients of PGGM and the organisation. The Supervisory Board is also regularly informed about developments on the asset management market. This provides the Board with timely insight into relevant developments that could potentially influence PGGM's business operations and reputation.

Growing pressure on the remuneration package for a number of specialised jobs was experienced in 2018. The group-wide remuneration policy of PGGM will be reviewed in 2019, in view of the new strategy. The remuneration policy must remain consistent with the risk appetite, core values and objectives of PGGM and support the successful implementation of our new strategy. This process is closely monitored by the Supervisory Board. The Supervisory Board also announced that it will evaluate the governance of Vermogensbeheer, in observance of the requirements of the supervisory authorities. In preparation for this it was agreed that a member of the Supervisory Board will be present at all meetings of the Supervisory Board of Vermogensbeheer B.V. The Supervisory Board also received information on the progress of major projects, such as the (successful) implementation of the General Data Protection Regulation (GDPR) legislation.

Organisational developments

Harry Vosseveld, former Director of Pensioenbeheer and a member of the EC as COO, decided to resign from PGGM on 1 April 2018. The Supervisory Board would like to express its respect and gratitude for all his efforts and performance.

The Supervisory Board was closely involved in the recruitment of a new member of the EC. Alexandra Phillippi joined the EC as Director Pensioenbeheer and COO on 1 May 2018.

Gerko Baarslag joined the EC as CIO on 1 November 2018. A decision was made to add a CIO to the EC in order to make the IT organisation future-proof, in view of the changes to the pensions system and the related strategic course. On 4 February 2019, Kees Beuving took office as deputy chair for the period in which Edwin Velzel was absent.

Audit, Risk and Compliance Committee

The ARC consists of Miriam van Dongen (Chair), Wim de Weijer (until 1 April 2018), Wanda van Kerkvoorden (from 1 April 2018 to 30 August 2018), Henk Broeders (from 1 November 2018) and Jan van Rutte.

The ARC held five regular meetings in 2018, with an extra meeting on one occasion.

The assessment of the internal auditor, the performance of the Internal Audit department and the instruction to the external auditors were discussed in closed meetings. The regular meetings were attended by the CEO and the Chief Financial & Risk Officer (CFRO), the Director Internal Audit and the external auditors. The Director Finance & Control and the Director Risk & Compliance were present during the discussions of the quarterly reports. In the discussions of the Annual Report, the committee conducted separate talks with the auditors. It was found in these talks that there were no particulars that could not be shared with the members of the Executive Board.

The ARC chair has regular talks with the Director Internal Audit and the external auditors.

The committee discussed the findings of the regular performance reports (including risk and compliance), as well as the audit reports. The actions pursuant to various findings were monitored and where necessary followed up. In the talks with the auditors on the management letter at the start of 2019, it was concluded that the general management is adequate. An important factor for this conclusion was that the strategy and the organisation have been adjusted in order to be able to respond to changes in the pensions sector. In addition, substantial investments are being made in IT systems. A predominantly mature view of cyber security is also visible and management of change activities has improved.

The development of future-proof enterprise architecture, security of information and IT infrastructure were discussed. Client profitability and steering are important subjects, because the financial results of PGGM are determined by the extent to which PGGM is able to provide institutional clients with appropriate services. This is consistent with the estimated costs in offers and the margin to be generated with these. PGGM's risk policy was also discussed and was updated in 2018. The ARC stated that the budget for 2019 is a well-supported and future-oriented budget. It was established here that strategic choices are necessary in order to retain stable results in the future.

The operating result was slightly negative. In the interests of our clients, substantial investments have been made in IT in order to improve the quality of service and reduce costs.

Individual members of the ARC attended meetings of the Corporate Risk and Compliance Committee and meetings of the Investment Committee within Vermogensbeheer as observers, in order to gain an understanding of the subjects in greater depth.

The Supervisory Board receives the reports of the ARC. At the meetings of the Supervisory Board, the committee chair provides oral feedback on the discussions. Supervisory Board members have a permanent invitation to attend the meetings. In 2018, the CFRO and the chair of the ARC once again had regular contacts outside the meetings on current issues and the agendas for the meetings.

Remuneration, Selection and Appointments Committee

The members of the RSB are Eric de Macker, Wanda van Kerkvoorden (until 1 April 2018), Marjanne Sint (since 1 April 2018) and Micky Adriaansens.

The RSB held regular meetings on five occasions in 2018.

In January 2018, the committee conducted 360-degree feedback talks with the members of the EC, the shareholder and the Works Council. The objectives for 2018 were also discussed. The committee then drew up advisory reports for the Supervisory Board on the performance and remuneration of the Executive Board in 2018. The Supervisory Board is responsible for the implementation of the group-wide remuneration policy and the assessment of the general remuneration policy principles. Each year, a central and independent internal evaluation is conducted to verify the implementation of this policy in terms of compliance and procedures. On the basis of this information the committee concluded that there were no deviations from the current policy and procedures and informed the Board of this. At least one member of the committee must have in-depth knowledge of and experience with a remuneration policy of a similar nature to that applied within the company. Eric de Macker satisfies this requirement. The outcomes of the review were also discussed.

On the basis of the outcomes of the review, the quality and potential of the workforce of PGGM was discussed.

The committee has asked the Executive Board to develop a more structural approach to inflow,

advancement and outflow, as well as talent development in 2018. This structural approach was designed through an approach via four subfields, each with its own time path. The subfields are simplification (identification of obstacles and their accelerated elimination), analysis and design of the organisation (coordinating the organisational structure with the new strategy), leadership development and specific behavioural interventions. The Director People and Organisation attends the Remuneration Committee meetings as a standard, in order to provide an explanation on progress.

The Supervisory Board receives the reports of RSB. At the meetings of the Supervisory Board, the committee chair provides verbal feedback about discussions. Supervisory Board members have a standing invitation to attend the meetings.

Other

Outside the meetings, there was frequent contact between the chair and other members of the Supervisory Board and the Executive Board. On several occasions, members of the Supervisory Board also had contact with the other members of the EC, the Works Council, employees, managers and stakeholders, both within and outside PGGM.

The Compliance department assesses whether the ancillary positions of all supervisory directors could entail (the appearance of) a conflict of interest. A process has been set up for this whereby a new ancillary position is submitted to the compliance officer for review and to the chair of the Supervisory Board for approval. In addition to (the appearance of) a conflict of interest, every supervisory director's portfolio of ancillary positions is also assessed against the statutory limitation rules.

No transactions took place in which potentially conflicting interests of material significance for the company and/or the relevant directors, supervisory directors, shareholders and/or the external auditors played a role.

Evaluation and permanent education

In January 2019, the Board evaluated its performance. This evaluation was performed with the aid of an external party and was conducted on the basis of document analysis, an extensive questionnaire and detailed interviews with members of the Supervisory Board, the Executive Board, the EC, key officers of Internal Audit and the corporate secretary. The results of this evaluation were discussed in the Supervisory Board.

Appreciation of the engagement, expertise, diversity and capacity of the Supervisory Board members was expressed. Meetings are conducted in a structured manner and in an open atmosphere, facilitated by timely provision of good quality information. A number of points for attention were also formulated, on which the Supervisory Board is keen to start work. The governance (and in relation to this, the decision-making) between PGGM N.V., the cooperative and PFZW could be optimised in a manner consistent with the new strategy. Although there is a structured agenda, the Supervisory Board would like to devote more time to discussing strategic themes. Finally, while the Supervisory Board devotes a great deal of attention to behaviour and organisation, the new strategy means that extra attention can be devoted to culture.

The Supervisory Board believes that permanent education is of significant value to the Board's own performance. It therefore has its own long-term education plan. In 2018, a great deal of attention was devoted to the central subjects described above. In-depth discussion took place around the regular meetings. A number of subjects were considered in depth in 2018, including the remuneration policy of PGGM and Vermogensbeheer. The EC and the Supervisory Board also conducted a joint 'Behaviour and Soft Controls' workshop. In addition, the new members of the Supervisory Board followed an extensive induction process. Together with directors of the cooperative and PFZW, supervisory directors also take part in management modules organised by PGGM. Four times per year, these focus on current developments at clients, among participants or in the internal organisation of a PGGM business unit.

Examples include communication with participants, the development of the Uniform Pension Statement and responsible investment.

Relations with the shareholder

The Supervisory Board's contact with the shareholder is primarily through the shareholder meetings. In 2018, in addition to the annual general meeting, an additional shareholder meeting took place to appoint a supervisory director. At least twice a year, the RSB conducts talks with the shareholder or a delegation acting on behalf of the shareholder on developments at PGGM and the remuneration policy of the Executive Board. The Directors of PFZW, the PGGM cooperative and the Supervisory Board met on a number of occasions in 2018. The matters discussed included strengthening a base of support for and further development of the new strategy, which is aimed at a (more) meaningful role in the healthcare and welfare sector. A number of domains, such as Retiring with Vitality, offer good opportunities for this. The availability and use of data (within the statutory limits) also provides a possibility for offering products and services for (vitality within) the healthcare and welfare sector. It is important to maintain a dialogue with employers, employees and the social partners.

Relations with the Works Council

The Supervisory Board considers having a good relationship with the Works Council extremely important. At least once a year, every member of the Board attends a consultative meeting of the Works Council. In addition, a member of the Supervisory Board attends a general state of affairs meeting. In addition, the supervisory director appointed on the nomination of the Works Council (Miriam van Dongen) conducts informal talks with the Works Council on a number of occasions each year. The Board bade farewell to a number of Works Council members in mid-2018 and monitored the outcomes of the Works Council elections. Introductions to the new Works Council members took place via 'speed dating' sessions.

There was intensive collaboration with (a delegation of) the Works Council on a number of files (appointment of the CEO and supervisory directors). The Supervisory Board also participates in the three-board consultation annually. At the three-board consultation, the Supervisory Board, the Works Council and the Executive Board exchange ideas about current topics.

Relations with the external auditors

The Supervisory Board and the ARC perceive the cooperation with KPMG to be positive. Proper use was made of a process-based and internal audit-based approach to work for the audit of the financial statements. The quality of the reports proved was good. The external auditors also attend the meetings of the ARC. The external auditor's input during these meetings was perceived to be positive. The instructions of KPMG run until the end of the 2019 financial year. In 2019, the process will be followed for the instruction of new auditors from the 2020 financial year.

Relations with Internal Audit

Once a year, the ARC assesses the performance of the Director of Internal Audit and the role and performance of the Internal Audit department. The perception of the department is positive. The relationship with the external auditors is good. The Director of Internal Audit attends the meetings of the ARC. The annual audit plan and the audit reports provide the Supervisory Board with a good insight into the business activities and processes.

Conclusion

The Supervisory Board would like to sincerely thank the members of the Executive Board and the EC, the Works Council and PGGM's employees for their efforts during the 2018 reporting year.

Zeist, 17 April 2019

Marjanne Sint, Chair

Miriam van Dongen, Deputy Chair

Micky Adriaansens

Henk Broeders

Eric de Macker

Jan van Rutte

PGGM Risk framework

For the implementation of risk management, we use the PGGM risk framework to structurally provide insight into, monitor and report on risks. PGGM's Risk Framework is based on the internationally accepted standard COSO Enterprise Risk Management (COSO ERM 2017) methodology.

Risk management at PGGM is organised in accordance with the generally accepted 'three lines of defence' model. Responsibility and primary risk management lie with line management (first line). The Finance & Control and Risk & Compliance departments supervise and report on the risks (second line). Internal Audit assesses whether the management demonstrably complies with the different requirements set in relation to risk management (third line). Each line has its own tasks and responsibilities.

Risk appetite

With every decision, risks are taken, consciously and unconsciously, in order to realise certain objectives. In order to determine whether PGGM is willing to run a particular risk, and to what extent, it is necessary to determine PGGM's risk appetite.

If a risk is assessed as lying beyond the risk appetite, extra management measures may be necessary in order to bring this risk within the limits of the risk appetite.

As part of the strategic review, we followed an intensive process in 2018 with the different stakeholders, in order to realise an updated and supported risk appetite consistent with the new strategy. The narrative description of the risk appetite arising from this is included in the Risk appetite statement chapter. In 2019, the risk appetite is made more concrete in risk cards for each risk, including a link to the management measures (hard and soft controls).

The risks and the accompanying risk appetite are divided into three clusters: Business Operations, Service Provision and Reputation. We have also made a distinction in relation to certain risks between risk appetite in a 'running the business' situation and risk appetite in a 'changing the business' situation. As an example, more IT risks can be taken in an innovation project than in the present pension administration system.

The table below shows the risk appetite and the risk picture of the risks belonging to the clusters at year-end 2018.

Risk appetite		Low	Low-Medium	Medium	Medium-High	High
Corporate	Environment			●	●	
	Design		● ●			
	Conduct & Culture		●	●		
	Legal & Compliance	●	●			
	Financial		●		●	
Service provision	Business			●	●	
	Process run		●	●		
	Process change			● ●		
	IT run	●	●			
	IT change		●		●	
	HR		●	●		
	Outsourcing		● ●			
	Accounting		● ●			
	Model		●			
	Reputation		●		●	

● Risk appetite ● Risk picture at year-end 2018

The table shows that the risk picture exceeds the risk appetite. This is partly due to the uncertainty relating to the future pension system and the resulting large IT change processes and the pressure on the financial result. The EC has taken measures to ensure that the risk picture lies at or around the risk appetite by year-end 2019. From 2019, the model risk will be distinguished as a separate risk, as a result of which no score is provided for the risk picture at year-end 2018.

Risk culture

Effective risk management goes hand in hand with a good risk culture. The risk culture we strive for is focused on risk-aware behaviour in an open and honest environment in which we are accountable to each other for our responsibilities, results and behaviour. PGGM stands for a risk culture in which incidents – no matter how uncomfortable – are reported. We can learn from this and as quickly as possible mitigate their impact. Within the risk

control in addition to the hard controls (substantive mitigating measures such as procedures), attention is also paid to soft controls (behaviour and matters that influence the behaviour of others). Monitoring and steering behaviour helps to have better understanding, anticipation, advice on and more efficient working methods. Preferably with fewer ‘hard’ regulations and rules. More insight into and knowledge of soft controls will lead to increased benefits.

This could lead to a reduced risk of incidents, conduct of employees, increased reputation, better management of processes, better realisation of objectives, more commitment and (in due course) a reduction in supervision and compliance costs. Attention is also devoted to soft controls in investigations by Internal Audit and in background and trend analyses of incidents by Risk & Compliance. We consider both the behaviour underlying the problem and the behaviour necessary for its solution here.

Risk management process

Enterprise Risk Management is a continual process at all levels of our organisation. The Risk & Compliance department is responsible for coordinating the risk management process and quarterly draws up a risk report for each business unit. This report compares the current risk profile with the risk appetite and is discussed and confirmed in the Unit Risk Committee of the particular business unit. In addition to the risks that actually manifested themselves, we specifically review the risks that could manifest themselves over time. Based on the overall risk profile and risk report, responsible management issues an in control statement each quarter.

An overall picture of PGGM is presented for the EC, the Executive Board and the audit, risk and compliance committee (ARC) every quarter, in the PGGM quarterly reports. The financial result, the objectives, the risk picture and the points for discussion are presented. The audit reports are separately presented.

Risk management developments in 2018

In 2017, we updated the PGGM Risk Framework in line with the 2017 COSO ERM standard. In various workshops with the EC and the ARC, Risk & Compliance updated the risk appetite on the basis of the new strategy and provided input on what this will mean for the Equity policy of PGGM.

Risk & Compliance also developed a framework in order to build prospectively on the risk picture on this. This ensured that the risk dialogue gained more depth in both the Corporate Risk Committee (CRC) as well as in the EC and the ARC, and the risk management function became more effective in its challenge and advisory role.

As part of the strategy programme, ERM performed a Risk Self Assessment (RSA) of the new PGGM strategy. We are seeing that the method of an RSA is becoming increasingly common within PGGM at the operational, tactical (change, projects) and strategic levels.

Another important milestone was the implementation of an integrated GRC application (Cerrix) in which Risk, Compliance, Internal Audit, (the) Privacy Office(r) and, at a later stage, other disciplines such as the CISO (Cyber Risk) will work in one single integrated system. In addition to a fast, up-to-date insight into the overall risk picture, this system also offers a link between the different risks, the management measures and the Standard controls (formerly ISAE). Further to the decision taken by the EC in 2017 to implement an integrated IT risk and Model risk policy, a PGGM-wide model validation team was formed in 2018, which performs model validations as well as assessing model risks. This team consists of permanent employees and a flexible group of external experts.

Relevant developments relating to compliance and privacy are included in the Compliance statement chapter.

Main risks and uncertainties

The main risks and uncertainties, developments in 2018 and management of these risks in each cluster are briefly discussed below.

Corporate risks

PGGM closely monitors and actively participates in the current social debate on changes to the pension system. A change to a different pension system may have an impact on the proposition and business operations of a pension administrator such as PGGM. The strategy identifies four scenarios to which the system debate could lead. An analysis was also conducted of what this will mean for PGGM.

Apart from the system debate, there are other environmental risks for PGGM. These include uncertainties relating to the conditions for Brexit, the IBOR reform, Central Clearing (EMIR) and the requirements imposed on PGGM by different supervisory authorities. Apart from the fact that these developments make heavy demands on this existing capacity for change, they are also marked by high levels of uncertainty. As a result, PGGM must be prepared for different scenarios that could develop rather quickly.

In 2018, we devoted attention to the conduct of our employees that is appropriate for a flexible organisation. The new strategy, which is aimed at mass customisation, also calls for a change of culture. The way in which PGGM staff work together needs to change. This is a priority in the strategy programme and is led by the Managing Director People & Organisation.

In order to comply and to continue to comply with statutory requirements, close attention was given in 2018 to the implementation of the GDPR and the Markets in Financial Instruments Directive (MiFID II). Detailed information concerning the activities for the management of compliance risk can be found in the Compliance chapter.

The ability to recruit, develop and keep talent is of strategic importance for PGGM. In order to enable employees to work healthily and pleasurably for long periods, they are stimulated and supported to take control of their own career development via the Fit for the Future programme. The growth potential of each employee is also discussed, determined and monitored throughout PGGM, following the programme Sturen op Bezetting (steering staffing),. Growing labour market shortages in 2018 led to an increased HR risk. This risk is mitigated by the deployment of recruitment methods with a continual search for alternative recruitment methods.

The financial results of our organisation are under pressure, with margins for our services shrinking and new products not yet making any substantial contribution to the results. As a result the direction and frameworks for improving the financial resilience of our organisation were determined as part of the new strategy. The effects of the measures taken will gradually become visible.

The investment portfolios to which our clients have entrusted PGGM were managed in a controlled manner in the past year, without any notable incidents. PGGM was able to present a Standard (previously ISAE) 3402 and Standard 3000 to its clients for 2018, once again with a clean auditors' report. Also investigations by supervisory authorities concerning PGGM's clients and concerning PGGM itself resulted in no noteworthy shortcomings. Financial risks that arise from these investment portfolios have no direct impact on the financial position of our organisation.

For an overview of the financial risks, including solvency, market, currency, interest, liquidity and credit risks, please see the financial statements.

Service provision risks

In the development of the strategy, we explicitly paid attention to the risks. For example, Risk & Compliance organised a workshop with the EC and the unit directors in order to define the most important risks relating to the execution of our new strategy and the management measures to mitigate those risks. The outcomes are included in the strategy programme.

The complexity of the pension schemes that PGGM administers for its clients increases the risk of errors. We are engaged in discussion with a number of clients on reducing the complexity and providing support and advice for these clients in that regard.

To carry out the strategy (mass customisation organisation with appropriate architecture) and to comply with the clients' requirements and the increasing laws and regulations (including the GDPR and MiFID II), a number of projects need to be carried out simultaneously. In view of the scope and the impact of these projects on the organisation, the change capacity is under pressure and there is an increased process and IT risk. In order to mitigate this risk, frameworks were drawn up for adequate, balanced, effective and transparent project and portfolio management. In 2018, attention was devoted to strengthening Quality Control in high-risk projects. Governance was also strengthened with the appointment of an IT Director (CIO) to the EC.

With regard to security of information and (cyber) security, we live in an age in which threats continue to grow and the demonstrability of measures becomes increasingly important for us and for our stakeholders. In 2018, partly on the basis of the established digital 'crown jewels', the policy and the set up for information security were updated. In addition, the PGGM Security Control Framework was set up on the basis of Cobit 5. This framework is not aimed solely at cyber security, but also makes connections between IT processes, management of information security risks and corporate objectives. On the basis of

this framework, we actively monitor the maturity and demonstrability of our security processes.

An incident in the mandatory pension communication for one of our clients occurred in 2018. Due to a software error, incorrect data was included in the Uniform Pension Statements for a specific group of participants which has been amended. The deviations per participant were limited. In addition in 2018 it was found that no deductions or incorrect deductions for concurrence with statutory benefits (under the Invalidity Insurance Act (WAO)/Work and Income according to Labour Capacity Act (WIA)) had been applied in payments of (temporary) old age pensions to a limited number of pension beneficiaries at one of our clients. All the participants affected were contacted and, if required, payment arrangements were made in order to recover the excess pension amounts paid. In accordance with our advice, the relevant clients reported these incidents to the Authority for the Financial Markets (AFM) and De Nederlandsche Bank (DNB), respectively. We conducted an investigation into the underlying causes of these incidents and took measures to prevent such situations arising in the future.

There are operating risks as part of the execution of orders for our clients. In order to mitigate these risks, we have designed our processes in a way that means we are demonstrably 'in control'. PGGM issues Standard reports (previously ISAE) 3402 and 3000 on the asset management and the pension administration. For asset management, these are multi-client reports, while reports per client are drawn up for pension administration. The incident referred to above led to a limitation in the opinion of our auditors for the Standard Report 3000 regarding the service provision of Pensioenbeheer for the relevant client. The other Standard reports concerning the service provision of Pensioenbeheer and Vermogensbeheer contain no limitations.

Reputation risks

In order to manage the reputation risk, we perform, amongst others, active stakeholder management in which the client relationship is continually monitored and client satisfaction is continually measured. In 2018, partly on the basis of the new strategy, we extended our relationship with PFZW and strengthened the partnership. We also actively monitor the media exposure of our organisation and our clients and specifically discuss the reputation risks and opportunities, as well as the measures to mitigate risks and utilise opportunities, on a regular basis.

Capital requirement

It is essential for the continuity of our organisation that we maintain enough capital to manage the potential financial consequences of the identified risks. Therefore we have drawn up a specific Equity policy. The DNB requirements are included herein. The Finance & Control department monitored the adequacy of the capital maintained in 2018.

The adequacy of the capital held for PGGM Vermogensbeheer B.V. and PGGM Treasury B.V., is specifically determined using the Internal Capital Adequacy Assessment Process (ICAAP). The 2018 annual discussions on the ICAAP with DNB did not give rise to any noteworthy observations.

An equity shortfall was identified for PGGM Strategic Advisory Services B.V. as of the balance sheet date 31 December 2017 and was immediately rectified in January 2018 by means of share premium allocation.

Risk appetite statement

As part of the strategic review, we followed an intensive process in 2018 with the various stakeholders, in order to realise an updated and supported risk appetite consistent with the new strategy. The resulting description concerning the risk appetite is included in this Risk Appetite Statement.

Corporate

More is likely to change in the Dutch pension landscape in the coming ten years than has changed in the past forty years. There are a number of important developments for which the present system does not yet have an adequate answer. This concerns social developments, such as greater labour market flexibility, individualisation and demands for greater transparency. Furthermore, the long-lasting low interest rates place the system financially under pressure. These are all circumstances that lead to increasing pressure from politicians, public opinion and supervisory authorities to change the system quickly now. Together with PFZW, PGGM is trying to retain as many of the strengths of the existing system as possible, but naturally, we do not ultimately have the final say in this. The social partners and ultimately, the politicians will decide on the future of the system. If the mandatory requirements are withdrawn, the distribution issue will become more complex for PGGM, which will have to deal with more parties. PGGM operates in a fast-changing world. This requires that we look more 'outside-in', embrace technological developments faster and work still more closely with partners. One thing is certain: PGGM will not look the same in 2023. In order to remain relevant, it is important for PGGM to provide Dutch pension funds with excellent services for fees at commercial rates.

We also wish to anticipate the future through innovative strength and entrepreneurial spirit. PGGM is a not-for-profit cooperative pension fund service provider. The organisation has a major social responsibility and is supportive of the healthcare and welfare sector. PGGM is dependent on the income that it generates from the administration contracts with its clients. Its *raison d'être* is placed under pressure if existing administrative contracts are terminated and there is no certainty regarding new contracts.

The organisational set up and management of PGGM must match the needs and requirements of our main stakeholders, such as PFZW and the supervisory authorities. PGGM wishes to assign responsibilities as low as possible within the organisation. This calls for an organisation with clear communication, consultative and decision-making structures.

In order to be able to absorb any losses, it is necessary for PGGM to maintain sufficient capital. In view of the size of the equity in relation to the assets that PGGM manages for its clients, it is also necessary to limit or insure PGGM's liability.

Service provision

The processes must be designed to enable PGGM to meet demand for custom services and differentiation (with different pension schemes) effectively. PGGM aims to form customer-oriented teams for that purpose, which will be able to meet client requirements with a high degree of flexibility. PGGM wishes to use the scale of the organisation by standardising processes. In this way, PGGM will become a 'mass customisation organisation'. This calls for a carefully-considered architecture, in which customisation is the aim, while retaining economies of scale.

Vermogensbeheer has taken a first step towards mass customisation with its mutual funds. The organisation is preparing to generalise the funds for different types of clients. PGGM strives to offer best-in-class service provision within asset management.

Pensioenbeheer is not yet set up for mass customisation but will make a start on this as soon as the necessary maintenance work on the existing IT architecture has been completed. Via its regular services, PGGM aims to offer participants a good pension product and there is a relatively low appetite for operational risks.

The services are to a significant extent data and IT-driven which is why PGGM has an increased exposure to IT and cyber risks. PGGM has a relatively low risk appetite in the field of IT and cyber risks. PGGM is aware that cyber-attacks cannot be prevented completely.

Reputation

A good reputation is essential for PGGM. PGGM aims through its social role and mandate from clients to operate responsibly and supportively. PGGM accepts that there are parties that may have a different vision of some matters and that this could lead to reputational damage. There is no risk appetite for reputational damage as a result of incorrect and/or incomplete services provided.

Compliance statement

The trust we receive from our stakeholders and the parties with whom we do business is founded on integrity and demonstrable compliance with legislation and regulations. We pursue an active and proactive compliance and integrity policy that ensures that we comply with these integrity standards, laws and regulations and with the requirements of supervisory authorities. PGGM Compliance realised this in 2018 with framework development and policy-making, advice, monitoring and reporting, training and awareness.

Internal organisation

In the Compliance department, there is a team of compliance professionals, each with their own account responsibility and/or specialism. The account managers perform the second-line compliance tasks relating to the chain (including the legal entities in this chain). The specialists in the compliance team advise and/or support the account managers in the performance of their tasks.

Compliance has a regular consultative structure and organises knowledge sessions within the team. The consultation and knowledge sessions serve as a platform for discussing policy, strategic and compliance-related topics. In the internal PGGM organisation and processes, Compliance is involved in almost all (proposed) changes with consequences for the internal organisation and the processes within PGGM.

Integrity

Subjects in the field of integrity (such as conflicts of interest, remuneration, sanctions and corruption) receive a great deal of publicity. PGGM, its clients and society impose increasingly high standards for good governance, behaviour with integrity and a culture of integrity. This goes beyond compliance with laws and regulations. We continue to devote full attention to compliance, including integrity.

We are aware that culture plays an increasingly important role controlling risks. Therefore in controlling risks and achieving objectives we focus on soft controls in addition to hard controls (demonstrable measures in processes and systems). These intangible but behaviour influencing factors do not replace rules, protocols or procedures. Hard and soft controls together influence people's behaviour.

Compliance audits a number of integrity-related aspects. This involves checking private securities transactions of employees on the basis of the requirements of the Code of Conduct, pre-employment screening of employees, prevention and if necessary, transparent management of conflicting interests and protection of confidential information. Compliance also increases and maintains awareness in the fields of regulation, compliance procedures and fraud and anti-corruption measures. It also provides standard training courses for new employees (including e-learning) on the Code of Conduct and security of information.

Compliance with laws and regulations

We wish to realise our service provision with integrity. This is also expressed in our core values 'Open and honest' and 'Respect for people and the environment'. We use internal policy rules and procedures to ensure compliance with laws and regulations concerning ourselves and our clients. We aim to be as transparent as possible to all stakeholders and the parties with which we do business.

We proactively monitor changes in legislation and regulations. We do this by identifying changes early, carrying out an impact analysis of these changes and by subsequently implementing the changes in documentation, processes and/or systems and verifying the correctness, completeness and timeliness of the implementation. To transparently account for the way in which we process changes in laws and regulations, the process of implementing changes in laws and regulations has been incorporated as a control measure in the Standard 3000.

In the regular internal audits in relation to the Annual Report 2017 of PGGM Strategic Advisory Services B.V., an equity shortfall of €58,000 was found in relation to the prudential requirements pursuant to the Wft as of the balance sheet date of 31 December 2017. In January 2018, the shareholder PGGM N.V. made a direct allocation to the share premium reserve of €250,000, raising the equity well above the minimum equity requirement. A surplus arose as a result of the appropriation of the profit for the 2017 financial year to the equity as a result of the profit appropriation decision in the adoption of the financial statements for 2017 by PGGM Strategic Advisory Services B.V.

We were not involved in any noteworthy legal proceedings or sanctions relating to non-compliance with laws and regulations in 2018.

Topics addressed in this regard in 2018 included:

- the implementation of the GDPR;
- further development of requirements under MiFID II Directive, effective from January 2018; and
- further analysis of the European benchmark Regulation.

Investigations by regulatory authorities

Together with our clients, we are regulated by various regulatory regimes. A large number of investigations were conducted by the regulatory authorities in 2018, with direct supervision of PGGM and through indirect supervision of our clients. The different departments were always willing to assist. We recognise that the increased regulatory authority activities increase the demands on the organisation.

The supervision is performed by various supervisory authorities, including DNB and AFM. The Dutch Consumer and Markets Authority (ACM) also conducted an investigation in the pensions sector in 2018. Supervision of compliance with the GDPR by the Dutch Data Protection Authority (Dutch DPA) may also still have an impact. We hope and expect that the supervisory activities will be further coordinated between the supervisory authorities. As a result, potential overlap can be avoided.

Privacy

In an era in which (personal) data can be shared and saved increasingly easily, the correct protection method is becoming more and more important. This is recognised by the government, which has made it part of its task to adjust the laws and regulations to the changing situation. The GDPR entered into force on 25 May 2018.

PGGM plays two roles in this context:

1. PGGM is controller as employer and cooperative.
2. PGGM is a processor for the institutional clients. For the purposes of the GDPR, the institutional clients are controllers for:
 - administration of pension contracts on the basis of an administration agreement or administration regulations;
 - market research and statistical analyses concerning pension matters;
 - provision of information on pension matters;
 - determination of the amount and payment of pension entitlements and benefits;
 - calculation, recording and collection of premiums from employers and entrepreneurs.

We handle personal data extremely carefully. We believe that, in accordance with the GDPR, we have taken appropriate technical and organisational measures to protect personal data. This means that privacy must form an integral part of the set-up of technical and organisational measures (we explicitly aim for security and privacy by design). A balance must also be sought between data protection and efficiency.

Finally, we also believe that 'hard' measures alone are not enough. Close attention must also be devoted to the 'soft' side. This means that we place a great deal of emphasis on the privacy awareness of employees. This gives them the opportunity to make the right choices when necessary, in line with the importance that we attach to protection of personal data.

Data protection officer

PGGM is not required by law to appoint a data protection officer. However, in view of the high volume of personal data, including special personal data, that PGGM processes, PGGM believes it would be wise to create such an independent position. Therefore we wish to facilitate access to our business by stakeholders, including the Dutch Data Protection Authority (DPA).

The data protection officer is appointed by the Executive Board and is responsible for compliance with its statutory obligations (articles 37 to 39 of the GDPR). One of the tasks of the data protection officer is to supervise compliance with the GDPR from an independent point of view. Another important task of the data protection officer is to advise on new and changed processes and systems in which personal data are involved. Within our organisation, this advisory role is required as part of the governance.

Within PGGM, the data compliance officer is appointed in addition to Compliance & Risk, due to the importance that PGGM attaches to careful handling of personal data and also due to the independence and specific knowledge and expertise required for this role.

Data leaks

PGGM has made a connection between the incidents process and the process concerning data leaks. PGGM encourages reporting of incidents and data leaks (internally and in the chain) in order to be able to identify, address and analyse these and to implement structural improvements in the business processes and management measures.

PGGM has taken measures to document all data leaks and to report these in a timely manner (either itself or through the controllers that we serve) to enable the Dutch DPA to check that PGGM and its clients have complied with their reporting obligations.

Requests from parties

The GDPR assigns different rights to those handling personal data. As controller, we implement these rights. For pension funds where we act as a controller, PGGM supports the pension funds in compliance with this obligation. There have been timely and adequate responses to the requests received by ourselves and our clients. This takes place directly or via the pension funds.

Developments in 2019

Through the GDPR programme, PGGM has taken the necessary steps to bring the management and protection of handling personal data in line with the GDPR. The GDPR programme has now been completed. The measures identified and found have been transferred to the organisation in place. The standing organisation inventorises the measures needed to raise the operation of the technical and organisational measures for the protection of personal data of PGGM and its clients to an even higher level of maturity. The organisation in place has taken the necessary initiatives for this and will continue to do so with the aid of its own Privacy Control Frameworks. The data protection officer supports these initiatives and will continue to supervise these from the independent second line. Both the organisation and the data protection officer will receive further support from automated tooling in 2019.

Codes of conduct

We regard it as our social duty to act transparently, with care and integrity. We therefore use guidelines including the PGGM Code of Conduct, the PGGM Whistleblowers scheme, the PGGM Incidents Policy and the Social Integrity regulation.

The Corporate Governance Code contains rules of conduct with which listed companies must comply. We are not a listed company. We nevertheless apply the Corporate Governance Code (2016) voluntarily at PGGM. This is because we endorse the underlying ideas of this governance code. Furthermore, we consider it important that companies in which we invest on behalf of our clients comply with the Corporate Governance Code. In this report, we account for the compliance with the Corporate Governance Code.

There were no significant incidents in the field of compliance and integrity in 2018. We were not involved in any noteworthy legal proceedings or sanctions relating to non-compliance with laws and regulations in 2018.

Whistleblower scheme

PGGM has a whistleblower scheme containing a procedure for internal and external reporting of (potential) wrongdoing and for handling this. The scheme also provides assurance for the protection of employees who report (potential) wrongdoing in good faith. The PGGM whistleblower scheme applies to PGGM N.V. and all its subsidiaries. One whistleblower's report was made in 2018. In addition to the internal handling of this report, in the interests of care it was also investigated by an independent organisation. After investigation, it was found that there were no grounds for a whistleblower report. The report was then settled via the line management in cooperation with HR.

Guidelines

In addition to the rules of conduct of the Corporate Governance Code, we comply with the Principles for Responsible Investment, the Global Compact, the OECD Guidelines for Multinational Enterprises, the IFC Performance Standards and the Human Rights Treaties in the Netherlands. In compiling this integrated directors' report, we followed the international reporting guidelines of the GRI G4 (Core), supplemented by the Financial Service Sector Supplement (FSSS).

In control statement

Objective

The objective of the In Control Statement (ICS) is for the Executive Board to make an explicit statement about the quality of the internal risk management and control systems. This reflects the importance we attach to controlled business operations performed with integrity and transparent accounting. In the ICS, we focus on the financial reporting risks and on the non-financial risks. As such PGGM is in compliance with the best practice provisions of the Dutch Corporate Governance Code.

Responsibility

As PGGM's Executive Board, we are responsible for the design and operation of PGGM N.V.'s internal risk management and control systems. The purpose of these systems is to ensure the risks associated with failing to realise the strategic, governance, operational and financial objectives are optimally controlled. However, they can never offer absolute certainty that these objectives will be achieved. The reality is that, when taking decisions, human assessment errors can occur and cost-benefit considerations constantly have to be made regarding the acceptance of risks and the imposition of control measures.

Activities

To execute our responsibility, we have, during the reporting year, independently and systematically analysed and assessed the risks relating to the achievement of our objectives and the applicable internal risk management and control systems of our organisation during the year under review. This included applying the PGGM Risk Framework which is based on the 2017 updated COSO Enterprise Risk Management methodology. The significant strategic, governance, operational and financial risks were identified for each business unit.

The management of each business unit independently analysed and assessed these risks as well as the applicable internal risk management and control systems; and submitted a report to us in this respect. We evaluated these reports, together with the findings of internal and external audits. We regularly discuss all the work related to risk control with the Audit, Risk and Compliance Committee and the Supervisory Board.

For a more detailed explanation of our work in this context, see the previous chapter on Risk Management.

Statement

On the basis of the above-referenced activities, we are of the opinion that we can in all reasonableness state that:

- a. the report provides sufficient insight into the shortcomings in the operation of the internal risk management and control systems;
- b. the above-referenced systems provide a reasonable degree of certainty that the financial reporting does not contain any material inaccuracies;
- c. on the basis of the current state of affairs it can justifiably be stated that the financial reporting has been prepared on a going concern basis;
- d. the report contains the material risks and uncertainties that are relevant to the expectation of company continuity for a period of twelve months following the date of the preparation of the report.

Zeist, 17 April 2019

The Executive Board

Edwin Velzel

Paul Boomkamp

Financial Statements

PGGM N.V. 2018

Consolidated balance sheet as at 31 December 2018

(before profit appropriation)
(amounts in thousands of euros)

	Ref.	31 December 2018	31 December 2017
Assets			
Fixed assets			
Intangible fixed assets	3	16,846	31,886
Tangible fixed assets	4	83,833	86,675
Financial fixed assets	5	19,797	19,244
Total fixed assets		120,476	137,805
Current assets			
Receivables	6	30,280	37,111
Cash	7	133,072	78,270
Total current assets		163,352	115,381
Total assets		283,828	253,186
Liabilities			
Equity			
	8		
Paid and called-up capital		200	200
Statutory reserve		6,641	5,664
Share premium reserve		158,712	158,712
Other reserves		43,681	42,274
Undistributed profit		-11,194	2,913
Total equity		198,040	209,763
Provisions			
Other provisions	9	18,215	12,009
Total provisions		18,215	12,009
Current liabilities	10	67,573	31,414
Total current liabilities		67,573	31,414
Total liabilities		283,828	253,186

Consolidated income statement for 2018

(amounts in thousands of euros)

	Ref.	2018	2017
Management fees	12	278,103	264,131
Other revenue	12	615	825
Total operating income		278,718	264,956
Cost of outsourced work and other external expenses	13	49,005	42,001
Personnel expenses	14	159,163	156,830
Amortisation of intangible fixed assets and depreciation of tangible fixed assets	15	21,511	22,102
Other operating expenses	16	60,905	39,779
Total operating expenses		290,584	260,712
Sub-total		-11,866	4,244
Financial income		4	3
Financial expenses		-407	-318
Result before taxes		-12,269	3,929
Taxes	17	-1,075	1,016
Result after taxes		-11,194	2,913

Consolidated cash flow statement for 2018

(amounts in thousands of euros)

	Ref.	2018	2017
Cash flow from operating activities			
Operating result		-11,866	4,244
Adjustments for:			
amortisation, depreciation and impairments	3,4,15	21,511	22,102
changes in tangible fixed assets	4	-1,302	156
changes in financial fixed assets	5	-553	6
changes in other provisions	9	6,206	-727
changes in working capital	6,10	42,990	-27,962
changes in equity	27	-529	-
Cash flow from business operations		56,457	-2,181
Interest received		4	-
Interest paid		-407	-315
Income tax received/paid	17	1,075	-1,016
		672	-1,331
Total cash flow from operating activities		57,129	-3,512
Cash flow from investment activities			
Additions and acquisitions of:			
intangible fixed assets	3	-843	-614
Tangible fixed assets	4	-1,513	-1,463
Disposals and sales of tangible fixed assets	4	29	22
Total cash flow from investment activities		-2,327	-2,055
Cash flow from financing activities			
Cash flow from financing activities	5	-	-
Total cash flow from financing activities		-	-
Net cash flow		54,802	-5,567
Changes in cash			
Cash at the beginning of the period		78,270	83,837
Cash at the end of the period		133,072	78,270
Changes in cash		54,802	-5,567

Notes to the consolidated financial statements for 2018

1. General Notes

Information about PGGM N.V.

PGGM N.V. was established on 20 July 2007 and has its registered office and principal place of business at Noordweg Noord 150 in Zeist, the Netherlands. One hundred percent (100%) of the shares in PGGM N.V. are held by PGGM Coöperatie U.A.

In accordance with Article 2 of its articles of association, PGGM N.V.'s objectives are as follows:

- a. To perform or cause to perform (i) the administrative management of prescribed pension entitlements and pensions that have commenced paying out and (ii) the implementation of prescribed pension entitlements and pensions that have commenced paying out, both in the broadest sense;
- b. To perform or cause to perform asset management in the broadest sense;
- c. To perform work that focuses on the development, sale or implementation of additional income provisions, insofar as they are not already included in a collective pension scheme, including the related information provision, consultancy and services, all in the broadest sense, for the sector in which work is performed in relation to health, mental and social interests, including services in the form of physical, mental or social care or assistance;
- d. To offer or cause to offer services, including, but not limited to, services in respect of the collection of premiums, financial administration, board support and substantive advice to social funds that are affiliated with clients of the company;
- e. To participate in, to take an interest in any other way in and to conduct the management of other business enterprises, of whatever nature, to finance other persons and to give security, give guarantees and bind itself in any other manner for debts of other persons; and finally all activities which are incidental to or which may be conducive to any of the foregoing in the broadest sense.

Statement of compliance

The annual financial statements have been prepared in accordance with the financial reporting requirements of Part 9, Book 2 of the Dutch Civil Code and the Dutch Financial Reporting Guidelines.

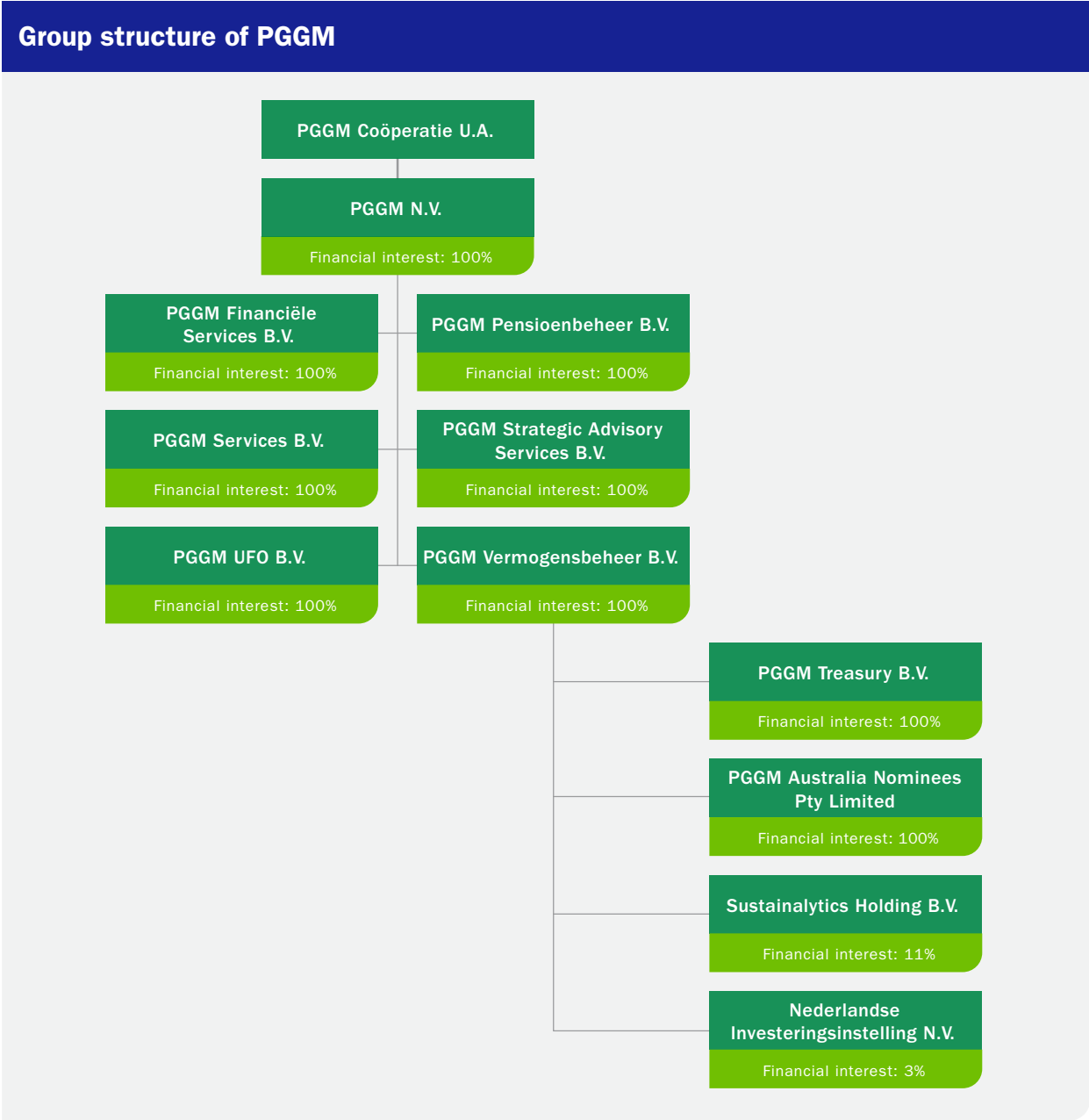
Group structure

PGGM N.V. is a holding company which, through participating interests, has performed activities in the area of board support, policy advice, pension administration, fiduciary advice and asset management since 1 January 2008.

PGGM N.V. has a two-tier board and is the holding company of eight direct and indirect subsidiaries which together with its shareholder, PGGM Coöperatie U.A., form the PGGM Group.

A number of subsidiaries have a licence from the Dutch Authority for the Financial Markets (AFM). When the legal structure was set up, it was decided that the various licences should be linked to individual companies so as to create clarity regarding the conditions associated with a particular licence and the supervision of these conditions.

The following overview shows the legal structure of the PGGM group as at 31 December 2018.



PGGM Vermogensbeheer B.V.

PGGM Vermogensbeheer B.V. (Vermogensbeheer) is the sole shareholder of PGGM Treasury B.V. (Treasury) and PGGM Australia Nominees Pty Ltd. (PAN).

AIFM licence

Pursuant to Section 2:67 of the Financial Supervision Act (Wft), the AFM has granted Vermogensbeheer an AIFM licence allowing it to act as the manager of an investment fund as defined in Section 1:1 of the Wft, effective from 4 April 2014. The licence is limited to offering the rights of participation to professional investors. Pursuant to Section 2:67a(2) of the Wft, Vermogensbeheer is also permitted to carry out the following activities or to provide the following services:

- Manage individual capital;
- In exercising a profession or carrying out a business, provide advice related to financial instruments;
- In exercising a profession or carrying out a business, receiving and transmitting client orders related to financial instruments.

PGGM Treasury B.V.

Vermogensbeheer established Treasury on 6 March 2009. Treasury is a 100 percent subsidiary of PGGM Vermogensbeheer. For that reason, the assets and liabilities, as well as the result, are fully incorporated into the consolidated financial statements of PGGM Vermogensbeheer. Due to changing legislation resulting from the AIFM Directive, a single entity is legally prevented from holding both an AIFM and an MiFID licence. Treasury has therefore owned the MiFID license pursuant to Section 2:96(b) of the Wft since 5 April 2014.

PGGM Australia Nominees Pty Limited

On 13 May 2009, PGGM Vermogensbeheer acquired the shares in PGGM Australia Nominees Pty Limited (PAN). PAN is a 100% subsidiary of PGGM Vermogensbeheer. For that reason, the assets and liabilities, as well as the result, are fully incorporated into the consolidated financial statements of Vermogensbeheer.

PGGM Pensioenbeheer B.V.

The pension administration activities are incorporate in PGGM Pensioenbeheer B.V. (Pensioenbeheer). These activities consist of client management and pension administration. Pensioenbeheer has a Wft licence from the AFM to provide advice (Section 2:75) and act as an intermediary (Section 2:80) in:

- Pension insurance;
- Pension contribution receivables; and
- Capital.

PGGM Strategic Advisory Services B.V.

PGGM Strategic Advisory Services B.V. (PSAS) has a licence pursuant to Section 2:96 of the Wft for providing investment services as defined in Section 1:1(d) of the Wft, and consequently is subject to AFM market conduct supervision and prudential supervision by De Nederlandsche Bank (DNB).

At the end of 2014, PSAS requested the AFM to withdraw the licence for investment service b and c. Effective from 21 January 2015, PSAS has a licence pursuant to Section 2:96 of the Wft, to provide investment services in the Netherlands as defined in Section 1:1 of the Wft, part d of the definition of providing an investment service.

PGGM UFO B.V.

PGGM UFO B.V. (UFO) acts as a contract party for pension funds and other institutional clients that wish to make use of the services of PGGM N.V. and its subsidiaries.

PGGM Financiële Services B.V.

PGGM Financiële Services B.V. (PGGM Financiële Services) has a Wft licence from the AFM to:

- a. Provide advice (Section 2:75 of the Wft) in current accounts, consumer credit, electronic money, mortgage credit, income insurance, private and business general insurance, savings accounts, capital and health insurance;
- b. Act as an intermediary (Section 2:80 of the Wft) in current accounts, consumer credit, electronic money, mortgage credit, income insurance, private and business general insurance, savings accounts, capital and health insurance.

PGGM Financiële Services did not make use of its licence under the National Regime pursuant to Section 2:96 of the Wft to receive and transmit orders and provide investment advice in accordance with rights of participants of an investment institution in 2018. At the request of the management of PGGM Financiële Services, the AFM withdrew the licence on 15 October 2018, pursuant to Section 1:104(1)(a) of the Wft.

PGGM Services B.V.

PGGM Services B.V. (PGGM Services) is focused on performing work aimed at offering products and services to employees and former employees who are employed or have been employed in the healthcare and welfare sector and to their partners that contribute to strengthening their personal and financial balance and that can promote mutual contacts among them.

Other participating interests

Sustainalytics Holding B.V.

Vermogensbeheer holds an 11% interest (2017: 11%) in Sustainalytics Holding B.V. This participating interest has not been consolidated, given that no significant influence can be exercised.

Nederlandse Investeringsinstelling N.V.

Vermogensbeheer holds a 3% interest (2017: 3%) in the Nederlandse Investeringsinstelling N.V. (NLII). NLII was dissolved on 1 October 2018. The NLII was founded by thirteen pension funds, pension fund service providers and insurance companies. The objective of NLII was to make Dutch investment projects in infrastructure, education, healthcare, residential building, SMEs and sustainable energy more attractive to institutional investors. This would enable them to increase their investment in the Dutch economy. This participating interest has not been consolidated, given that no significant influence can be exercised.

Reporting period

These financial statements relate to the 2018 financial year, which began on 1 January 2018 and ended on the balance sheet date of 31 December 2018.

Accounting standards

The consolidated annual financial statements have been prepared in accordance with the financial reporting requirements of Part 9, Book 2 of the Dutch Civil Code and the financial reporting guidelines published by the Dutch Accounting Standards Board.

Application of Section 402, Book 2 of the Dutch Civil Code

The consolidated annual financial statements include the financial data of PGGM N.V. For that reason, in accordance with Section 402 Book 2 of the Dutch Civil Code, the company income statement only includes the share in the result of participating interests after tax and the other results after taxes.

Continuity

These annual financial statements have been prepared on a going-concern basis.

Related parties

All legal entities over which dominant control, joint control or significant influence can be exercised are deemed to be related parties. Legal entities that can exercise predominant control are also deemed to be related parties. The members of the Executive Board under the Articles of Association, other key officers in the management of the companies or their parent company and those closely allied are also deemed to be related parties.

Significant transactions with related parties are explained to the extent these have not been entered into at arm's length. In such cases, the nature and size of the transactions are explained and other information necessary to provide insight is also given.

2. Accounting principles for the valuation of assets and liabilities and the determination of the result and the cash flow statement

General

Recognition of an asset or liability

An asset is recognised on the balance sheet when it is probable that the future economic benefits will accrue to PGGM N.V. and its value can be reliably established.

A liability is included on the balance sheet if it is probable that its settlement will be associated with an outflow of resources and the amount thereof can be reliably established.

When a transaction causes almost all or all future economic benefits and almost all or all risks related to an asset or liability to be transferred to a third party, then the asset or the liability is no longer recognised on the balance sheet. In addition, assets or liabilities are no longer recognised on the balance sheet from the time that the conditions of probable future economic benefits and reliability of establishing the value are no longer met.

Assets and liabilities in general are stated at the acquisition price or production cost, or their current value. If no specific valuation principle is stated, valuation is on the basis of the acquisition price.

Recognition of income and expenses

Income is recorded in the statement of income and expenses if an increase in economic potential associated with an increase in the value of an asset or a decrease in the value of a liability occurred, provided that the value thereof can be reliably established.

An expense is recorded if a decrease in economic potential associated with a decrease in the value of an asset or an increase in the value of a liability occurred, provided that the value thereof can be reliably established.

The result is determined as the difference between the net realisable value of the delivered performance and the costs and other expenses incurred over the year. Transaction revenues are recognised in the year in which they are realised. References are included in the balance sheet, income statement and cash flow statement. These references refer to the explanatory notes.

Comparison to previous year

The accounting principles used for valuations and to determine the result are unchanged with respect to the previous financial year.

Foreign currency

The financial statements are presented in euros, PGGM N.V.'s functional currency. All financial information in euros is rounded off to the nearest thousand. Assets and liabilities denominated in foreign currencies are converted into euros at the exchange rate prevailing on the balance sheet date. This valuation forms part of the fair value valuation. Income and expenses relating to transactions in foreign currencies during the reporting period are converted at the exchange rate prevailing on the transaction date. All foreign currency translation differences are recognised in the statement of income and expenses.

The assets, liabilities, and income and expenses of consolidated participating interests with a functional currency other than the presentation currency are converted at the exchange rate prevailing on the balance sheet date. The resulting translation gains and losses are directly recognised under equity in the statutory foreign currency translation reserve.

Use of estimates

The preparation of the annual financial statements in accordance with Part 9 Book 2 of the Dutch Civil Code requires the Executive Board to make judgements, estimates and assumptions which affect the application of the accounting principles and the reported value of assets and liabilities and of income and expenses.

The actual results may differ from these estimates. The estimates and underlying assumptions are continuously assessed. Revisions of estimates are applied in the period during which the estimate is revised and in the future periods for which the revision has consequences.

Basis of consolidation

The consolidated financial statements comprise the financial data of PGGM N.V., its group companies and other legal entities in which it can exercise dominant control or over which it has central management. Group companies are participating interests in which PGGM N.V. has a controlling interest, or in which policy making influence can be exercised in some other way. The assessment of whether policy-making influence can be exercised involves financial instruments which potentially carry voting rights and can be exercised directly. Participating interests acquired for the sole purpose of disposal within the foreseeable future are not consolidated.

Newly acquired participating interests are consolidated from the date on which policy making influence can be exercised. Divested participating interests are consolidated until the date this influence ceases.

In the consolidated annual financial statements, mutual liabilities, receivables and transactions are eliminated, as are any profits made within the group. The group companies are integrally consolidated, whereby the third party minority interests are recorded separately.

The following companies are included in the consolidation:

Companies		
Name	Place of business	Share in subscribed capital
PGGM Financiële Services B.V.	Zeist, The Netherlands	100%
PGGM Pensioenbeheer B.V.	Zeist, The Netherlands	100%
PGGM Services B.V.	Zeist, The Netherlands	100%
PGGM Strategic Advisory Services B.V.	Zeist, The Netherlands	100%
PGGM UFO B.V.	Zeist, The Netherlands	100%
PGGM Vermogensbeheer B.V.	Zeist, The Netherlands	100%
PGGM Treasury B.V.	Zeist, The Netherlands	100%
PGGM Australia Nominees Pty Limited	Sydney, Australië	100%

Acquisition and disposal of group companies

From the date of acquisition, the results and the identifiable assets and liabilities of the acquired companies are included in the consolidated financial statements. The date of acquisition is the moment that dominant control can be exercised over the relevant company.

The acquisition price is the sum of money, or the equivalent, agreed to acquire the company, increased by any directly attributable costs. If the acquisition price is higher than the net amount of the fair value of the identifiable assets and liabilities, the excess is capitalised as goodwill under intangible fixed assets. If the acquisition price is lower than the net amount of the fair value of the identifiable assets and liabilities, the difference (negative goodwill) is shown as an accrued liability item.

The companies involved in the consolidation are included in the consolidation until they are sold. Deconsolidation occurs at the moment when dominant control is transferred.

Financial instruments

Financial instruments are initially recognised at fair value, whereby share premiums and discounts and directly attributable transaction costs are accounted for on initial recognition. However, if financial instruments are recognised at fair value in the subsequent valuation, with value changes being accounted for in the income statement, directly attributable transaction costs are taken directly to the income statement. Financial instruments embedded in contracts which are not separated from the basic contract are accounted for in accordance with the basic contract.

Fair value

The fair value of a financial instrument is the amount for which an asset can be exchanged or a liability settled between knowledgeable, willing parties who are independent of each other. The fair value of financial instruments shown in the balance sheet under 'Cash', 'Current receivables' and 'Current liabilities' is an approximation of their book value.

Intangible fixed assets

Intangible fixed assets are stated at their acquisition price or production cost net of amortisation. Impairments are taken into account. An impairment arises when the book value of an asset (or the cash flow generating entity to which the asset belongs) is greater than the realisable value. Intangible fixed assets are stated at their acquisition price on initial recognition.

With regard to the determination of whether an intangible fixed asset is subject to an impairment, please see the 'Impairment of fixed assets' section.

Goodwill

Goodwill is the positive difference between the acquisition price and the fair value (initial valuation) of the acquired assets and liabilities at the moment of acquisition. Goodwill is subject to straight-line amortisation on the basis of the useful economic life.

Software

Software is stated at the acquisition price or at the production cost net of cumulative amortisation. These assets are subject to straight-line amortisation over their estimated economic life, taking account of the potential contract duration.

Tangible fixed assets

Land and buildings

Land and buildings are stated at fair value. At the time when the asset is acquired or produced, it is stated at the acquisition price or production cost. Subsequently, it is recognised at the current purchase price or the lower value in use, net of cumulative depreciation. If a decision is taken to sell property, plant or equipment, the value is recognised as the net realisable value.

Buildings are subject to straight-line depreciation over their estimated economic life with a residual value of 20 percent of the current purchase price. Buildings are subdivided into the categories shells, completions and installations and are depreciated to the aforementioned residual value in 40, 25 and 15 years respectively. Land is not subject to depreciation. The fair value is reviewed once every three years by means of an appraisal carried out by a certified external appraiser.

Parameters including the following are taken into account in the appraisal:

- Continuing intention of permanent use as company office space;
- Changes in the space requirements;
- Changes in the net initial return;
- Changes in the market rental value;
- Recent transactions.

The appreciation of tangible fixed assets is directly accounted for in a revaluation reserve item under equity. However, the appreciation should be accounted for in the income statement to the extent that it is a reversal of a downward value adjustment of the same asset previously accounted for as an expense in the income statement.

Revaluation reserves are formed and held for each asset. Downward value adjustments are recognised directly in the income statement to the extent that they cannot be charged to a previously formed revaluation reserve.

A downward value adjustment occurs when the current value of a tangible fixed asset is lower than the original acquisition price or production cost (net of depreciation).

No provision has been made for the future cost of major maintenance to the company buildings. The cost of maintenance is directly accounted for as an expense in the income statement annually.

Plant and equipment

Plant and equipment are stated at the acquisition price net of cumulative depreciation. These assets are subject to straight-line depreciation over their estimated 5 to 10-year economic life, taking account of any potential contract term. The residual value is zero.

Other operating assets

The other operating assets comprise furniture and equipment, computer hardware, artworks and other operating assets. The other operating assets are stated at their acquisition price net of cumulative depreciation. These assets are subject to straight-line depreciation over their estimated 5 to 10-year economic life. The residual value is zero. Artwork is not subject to depreciation.

Financial fixed assets

Participating interests in which significant influence is exercised

Participating interests in which significant influence can be exercised on the business and financial policy are stated in accordance with the equity accounting method on the basis of the net asset value.

PGGM N.V.'s accounting principles are used to determine the net asset value. Results on transactions involving a transfer of assets and liabilities between PGGM N.V. and its participating interests and between participating interests themselves are eliminated to the extent these can be deemed to be unrealised.

Participating interests with a negative net asset value are stated at nil. A provision is created when PGGM N.V. wholly or partially guarantees the relevant participating interest's debts, or has the constructive obligation (for its share) of enabling the participating interest to pay its debts. This provision is primarily formed against the receivables from the participating interest and for the remainder, under the provisions according to the size of the share in the losses sustained by the participating interest, or for the expected payments by PGGM N.V. in respect of this participating interest.

The initial valuation of acquired participating interests is based on the fair value of the identifiable assets and liabilities at the moment of acquisition. For the subsequent valuation, the principles applicable to these financial statements are used, with the initial valuation used as a basis.

Participating interests in which there is no significant influence

Participating interests in which no significant influence is exercised are stated at the lower of acquisition price or realisable value. If there is a firm intent of disposal, the participating interest is stated at the lower expected sales value, if applicable.

Impairments of fixed assets

For fixed assets, an assessment is conducted on every balance sheet date to determine whether there are any indications that these assets may be subject to impairment. If this appears to be the case, the realisable value of the asset is estimated. The realisable value is the higher of the value in use or the net selling price. If it is not possible to estimate the realisable value of an individual asset, the realisable value of the cash-generating unit to which the asset belongs (the asset's cash-generating unit) is determined.

An assessment is also conducted on every balance sheet date to determine whether there are any indications that impairment losses shown in earlier years have been reduced. If this appears to be the case, the realisable value of the asset is estimated.

The reversal of a previously recognised impairment only takes place when there is a change in the estimates used for determining the realisable value since the recognition of the latest impairment loss shown. In that case, the book value of the asset is increased to the estimated realisable value, but no higher than the book value (after depreciation) that would have been established if no impairment loss would have been recognised for the asset in previous years.

Receivables, prepayments and accrued income

On initial recognition, receivables are stated at the fair value of the consideration received in return. Accounts receivable are stated at the amortised cost price after initial recognition. If the receipt of the receivable is deferred on grounds of an agreed extension to a payment term, the fair value is determined with reference to the present value of the expected receipts and interest income based on the effective interest rate is taken to the income statement. Provisions for bad debt are deducted from the book value of the receivable.

Cash

Cash is stated at its face value.

Provisions

General

Provisions are stated at the face value of the expenditures that are expected to be necessary to settle the liabilities, unless stated otherwise.

Restructuring provision

A restructuring provision is made if, on the balance sheet date, a detailed restructuring plan has been formalised which will, by the date of finalisation of the financial statements at the latest, cause legitimate expectations of the plan being implemented to have been generated among those for whom the restructuring has consequences. There are deemed to be legitimate expectations if the implementation of the restructuring operation has started, or if the main points have been made known to those for whom the restructuring has consequences.

Provision for anniversaries

The provision for anniversaries relates to a provision for future anniversary payments. The anniversary bonus scheme was withdrawn on 1 January 2018. Employees will be (partially) compensated for the withdrawal of this bonus. The anniversary provision is made on the basis of the calculation in the collective labour agreement (cao), taking account of the following elements:

- employees to whom the scheme applies;
- years of service on the reference date of 1 January 2018;
- salaries;
- percentage of the benefits paid in four years according to the cao.

Provision for Life Insurance

Following the sale of the life insurance portfolio, a number of guarantees were provided to the buyer. The guarantees agreed with the buyer are also taken into account in this provision.

Other provisions

The other provisions are stated at face value.

The provision for onerous contracts relates to the negative difference between the expected benefits from the performance to be received by PGGM after the balance sheet date and the unavoidable costs of fulfilling all the obligations. At a minimum, the unavoidable costs are the costs which have to be incurred to get out of the agreement, being the lower of the costs of fulfilling the obligations and the compensation or penalties which must be paid if the obligations are not fulfilled. A provision is formed for loss-making contracts if it is probable that the inevitable costs of compliance with the obligations exceed the economic benefits of those contracts.

Subordinated loans

The subordinated loan is shown at the amortised cost price on the basis of the effective interest method, taking account of the market rate at the time of the contracting of the subordinated loan. The interest expense is shown in the statement of income and expenses on the basis of the effective interest method.

Other liabilities, accruals and deferred income

Other liabilities, accruals and deferred income are stated at fair value on initial recognition. After initial recognition, the liabilities are recognised at amortised cost (equal to the face value if there are no transaction costs).

Cost of outsourced work and other external expenses

The cost of outsourced work and other external expenses consists of all the other external costs that are directly related to the work performed by third parties.

Personnel expenses

The personnel benefits are recognised in the income statement in the period in which the professional performance is effected and, insofar as it is not yet paid, as a liability in the balance sheet. If the amounts paid exceed the benefits owed, the excess is recognised as prepayment and accrued income insofar as the personnel is expected to repay this amount or the amount will be offset against future payments by the company.

If a benefit is paid for which no entitlements have been accrued (for example, continued payment in case of illness or occupational disability), the expected expenses are recognised in the period in which the benefit is owed. A provision is made for liabilities existing on the balance sheet date for the continued future payment of benefits (including severance pay) to employees who, on the balance sheet date, are expected to be fully or partially unable to perform work due to illness or occupational disability. The liability is recognised as the best estimate of the amounts that will be needed to settle the relevant liability on the balance sheet date. Additions to and the release of liabilities are charged to or debited from the income statement, respectively.

Financial income and expenses

Interest income and expenses

PGGM N.V. and its subsidiaries account for interest income and expenses relating to cash as a result of the interest compensation system, primarily at PGGM N.V. In the financial statements, the interest income and expenses are assessed per individual credit institution and, ultimately, the net position is presented as interest income or expense.

Share in the result of participating interests

The share in the result of participating interests consists of the Group's share in the results of these participating interests, determined on the basis of the Group's accounting policies. Results on transactions, involving a transfer of assets and liabilities between the Group and the non-consolidated participating interests and between non-consolidated participating interests themselves are not recorded to the extent that these can be deemed to be unrealised. The results of participating interests which are acquired or disposed of during the financial year are recorded in the Group's results from the moment of acquisition until the moment of disposal.

Pension scheme

The basic principle applied is that the pension costs recognised in the reporting period are equal to the pension premiums owed to the pension fund over the same period. A liability is recorded if, on the balance sheet date, the premiums owed are not fully paid up. If, on the balance sheet date, the paid premiums exceed the premiums owed, an item for prepayment and accrued income will be included provided that the fund is expected to issue a repayment or offset the excess premiums paid against future premiums owed.

Leasing

PGGM N.V. and its subsidiaries may conclude financial and operational lease contracts. Lease agreements whereby the advantages and disadvantages of ownership of the lease object are wholly, or almost wholly, borne by the lessee are classified as financial leases. All other lease agreements are classified as operational leases. When classifying a lease, the determining factor is the economic reality, not necessarily the legal form.

Taxes

Taxes comprise tax on profits to be paid or offset and deferred taxes over the reporting period. Taxes are recognised in the income statement, except to the extent that they concern items that are included directly in equity, in which case the tax is recognised under equity.

The tax to be paid or offset for the financial year is the expected tax charge on taxable profit for the financial year, calculated using the tax rates in force on the reporting date, or that are materially decided on the reporting date, and include any corrections to tax payable for prior years.

If the carrying values of the assets and liabilities for financial reporting purposes deviate from their carrying values for tax purposes, then there are temporary differences. A provision for deferred tax liabilities is made for taxable temporary differences.

A deferred tax asset is recorded for offsettable temporary differences, available losses carried forward and netting opportunities not yet utilised, but only to the extent that it is probable that future taxable profits will be available for netting or compensation. Deferred tax assets are reviewed on every reporting date and are reduced insofar as it is no longer likely that the corresponding tax benefit will be realised.

A deferred tax liability is recognised for taxable temporary differences concerning group companies, foreign non-independent entities, participating interests and joint ventures, unless the company is able to determine at what moment the temporary difference will expire and it is likely that the temporary difference will not expire in the foreseeable future.

A deferred tax asset is recognised for offsettable temporary differences concerning group companies and participating interests, but only to the extent that it is probable that the temporary difference will expire in the foreseeable future and that taxable profit will be available to compensate for the temporary difference. Deferred tax assets and liabilities are valued at face value. Within the PGGM group, corporation tax on the taxable result is calculated for each entity. Ultimately, PGGM Coöperatie U.A. settles with the Tax and Customs Administration.

Cash flow statement

The cash flow statement is prepared in accordance with the indirect method. Cash flows in foreign currencies are restated in euros on the basis of the average exchange rates for the relevant periods. Income and expenses arising from interest, dividends received and tax on profits are included in the cash flow from operating activities. Dividends paid are recognised under the cash flow from financing activities.

3. Intangible fixed assets

	Goodwill	Software	Total
Balance as at 1 January 2017			
Cost price	139,871	49,272	189,143
Accumulated amortisation and impairment	-95,185	-46,807	-141,992
Carrying amount as at 1 January 2017	44,686	2,465	47,151
Changes in 2017			
Investments	-	614	614
Amortisation	-14,895	-984	-15,879
Balance	-14,895	-370	-15,265
Balance as at 31 December 2017			
Cost price	139,871	49,886	189,757
Accumulated amortisation and impairment	-110,080	-47,791	-157,871
Carrying amount as at 31 December 2017	29,791	2,095	31,886
Changes in 2018			
Investments	-	843	843
Amortisation	-14,895	-988	-15,883
Balance	-14,895	-145	-15,040
Balance as at 31 December 2018			
Cost price	139,871	50,729	190,600
Accumulated amortisation and impairment	-124,975	-48,779	-173,754
Carrying amount as at 31 December 2018	14,896	1,950	16,846
Amortisation period	5-7 years	5 years	

Goodwill

The goodwill arose following the acquisition of the service provider by PGGM in 2008 and relates to the positive difference between the acquisition price and the assets and liabilities acquired. Capitalised goodwill is subject to straight-line amortisation on the basis of the useful economic life.

Software

The investments primarily concern licences for the pensions' and investment administration's back-office system.

4. Tangible fixed assets

	<i>Land and buildings</i>	<i>Plant and equipment</i>	<i>Other operating assets</i>	<i>Total</i>
Balance as at 1 January 2017				
Cost price	93,210	3,211	22,154	118,575
Accumulated depreciation and impairment	-7,610	-2,400	-16,952	-26,962
Carrying amount as at 1 January 2017	85,600	811	5,202	91,613
Changes in 2017				
Investments	262	70	1,131	1,463
Disposals	-	-	-741	-741
Depreciation	-3,968	-188	-2,067	-6,223
Depreciation of disposals	-	-	563	563
Balance	-3,706	-118	-1,114	-4,938
Balance as at 31 December 2017				
Cost price	93,472	3,281	22,544	119,297
Accumulated depreciation and impairment	-11,578	-2,588	-18,456	-32,622
Carrying amount as at 31 December 2017	81,894	693	4,088	86,675
Changes in 2018				
Investments	24	198	1,291	1,513
Revaluations	1,302	-	-	1,302
Disposals	-	-	-170	-170
Depreciation	-3,986	-200	-1,442	-5,628
Depreciation of disposals	-	-	141	141
Adjustment of gross book value - Revaluation	24	-	-	24
Adjustment of accumulated impairments and depreciation - Revaluation	-24	-	-	-24
Balance	-2,660	-2	-180	-2,842
Balance as at 31 December 2018				
Cost price	94,822	3,479	23,665	121,966
Accumulated depreciation and impairment	-15,588	-2,788	-19,757	-38,133
Carrying amount as at 31 December 2018	79,234	691	3,908	83,833

Depreciation period

Land and sites:	Not subject to depreciation
Buildings - shells:	40 years
Buildings - completed:	25 years
Buildings - building-related systems:	15 years
Plant and equipment:	5-10 years
Other operating assets:	5-10 years

PGGM N.V. is the economic owner of the land and buildings. PGGM Coöperatie U.A. is the legal owner of both the land and the buildings. No changes in the principles included in the 2016 appraisal report took place in 2018. In accordance with the policy, a desk-top review was performed by the external appraiser at the end of 2018. As a result the valuation was adjusted by € 1.3mIn. At the end of 2018, it was established that there was no impairment.

5. Financial fixed assets

	<i>Participating interests</i>	<i>Deferred taxes</i>	<i>Volo Pensioen loan</i>	<i>Total</i>
Balance as at 1 January 2017	1,699	15,211	2,340	19,250
Changes in 2017				
Value changes	-100	94	-	-6
Balance as at 31 December 2017	1,599	15,305	2,340	19,244
Changes in 2018				
Value changes	-	553	-	553
Balance as at 31 December 2018	1,599	15,858	2,340	19,797

NLII was dissolved on 1 October 2018. Due to the uncertainty regarding the amount of the final settlement, the value of the shares in NLII remains zero.

The deferred taxes or the deferred tax receivable relates entirely to the temporary fiscal and commercial differences in the fiscal and commercial valuation. The term of the total amount for 2018 of €15.9 million (2017: €13.4 million) is longer than one year.

The Stichting Algemeen Pensioenfonds Volo Pensioen (Volo) was formed at the start of 2016. Volo is a general pension fund as defined in and regulated by the Pension Act. At the end of 2016, PGGM N.V. made additional capital available in the form of a subordinated loan with an indefinite term to finance the start-up costs. The amount of the subordinated loan is € 2.3mIn. Volo pays interest equal to the EURIBOR rate with a 50 basis point mark-up. The interest is owed quarterly in arrears on the last day of each quarter and is calculated on the basis of a 30-day month and a 360-day year.

6. Receivables

	31 December 2018	31 December 2017
Accounts receivable	17,439	20,704
Still to be invoiced	6,662	4,809
Receivables from group companies	-	3,084
Prepayments and accrued income	6,179	8,514
Total	30,280	37,111

Of this, an amount of €1.8 million (2017: €2.6 million) has a remaining term of more than one year.

Accounts receivable

The accounts receivable primarily consist of the amounts invoiced to institutional clients relating to advisory services, pension administration and asset management activities.

Still to be invoiced

Amounts still to be invoiced relate to amounts still to be charged to investment funds and institutional clients.

Receivables from group companies

The receivable from PGGM Coöperatie U.A. for 2017 consists of the offset corporation tax which PGGM Coöperatie U.A. settles with the Dutch Tax and Customs Administration.

No interest is charged on the balance of the current account relationships with group companies.

Prepayments and accrued income

The prepayments and accrued income primarily consist of prepaid expenses to suppliers.

7. Cash

Cash relates to credit balances which are held in major Dutch banks. The company's own cash forms part of the balance and interest set-off system within PGGM. As a result of participation in the interest set-off system, the company is jointly and severally liable for all obligations arising from this. An amount of € 8.2mIn of the cash (year-end 2017: € 8.2mIn) is not freely available. This concerns the balance of a blocked account retained in relation to the sale of the life insurance activities.

Vermogensbeheer is the asset manager for external clients and for the PGGM investment funds. To carry out the joint management and to create netting advantages or, as the case may be, interest set-off, Treasury receives orders from Vermogensbeheer to hold bank accounts and money market instruments and undertake derivative transactions for the account and risk of Vermogensbeheer's clients, who have provided the requisite mandates. As a consequence of this, the economic ownership of the bank accounts and money market instruments referred to belongs to those instructing PGGM Vermogensbeheer and the legal ownership belongs to Treasury. Consequently, the balance of these bank accounts is not accounted for in the financial statements of Treasury and Vermogensbeheer.

Holding a joint bank account and other money market instruments for the benefit of those instructing it does not imply any credit or bankruptcy risks for Treasury.

€ 0.5mIn of the cash is held by PGGM N.V. for collection of premiums from a client.

The cash rose because the client fee for the first quarter was already received in 2018. This is therefore a result of a timing difference.

8. Equity

The equity is further explained in the notes to the balance sheet of the company financial statements.

9. Provisions

	<i>Restructuring</i>	<i>Anniversaries</i>	<i>Life</i>	<i>Other</i>	<i>Total</i>
Balance as at 1 January 2017	4,323	4,091	1,256	3,053	12,723
Changes in 2017					
Contributions	4,039	548	-	1,291	5,878
Withdrawals	-3,240	-49	-	-834	-4,123
Release	-333	-880	-1,256	-	-2,469
Balance as at 31 December 2017	4,789	3,710	-	3,510	12,009
Changes in 2018					
Contributions	1,058	-	2,900	8,614	12,572
Withdrawals	-3,672	-513	-	-	-4,185
Release	-350	-1,831	-	-	-2,181
Balance as at 31 December 2018	1,825	1,366	2,900	12,124	18,215

These provisions are predominantly long-term.

Restructuring provision

As a result of the Daadkrachtig Vernieuwen programme, multiple restructuring plans were initiated. On the basis of these plans a provision for severance pay in support of collective and individual initiatives was included in the restructuring provision.

Provision for anniversaries

At year-end 2018, the provision for anniversaries is calculated on the basis of the calculation method according to the 2018 cao. The effect of this estimation change is a one-off amount of € 1.8mln shown in the income statement for 2018. The effect on the annual charge in the income statement up to 2022 is limited under the new situation in comparison with the old methodology.

Life Insurance provision

Following the sale of the life insurance portfolio, a number of guarantees were provided to the buyer. The guarantees agreed with the buyer are also taken into account in this provision.

Other provisions

Within the other provisions is a provision for a loss-making contract and a provision for Deferred Variable Income.

PGGM N.V. will discontinue its activities as an administrator in relation to the service provided to Volo. PGGM N.V. and Volo agreed the settlement and liquidation of Volo in 2018. Until the time when the relationship between PGGM N.V. and Volo formally terminates, PGGM N.V. guarantees the quality of the service provision to Volo and its clients. PGGM N.V. recognises the outcome of the settlement agreement in the financial statements in accordance with the reporting guidelines by including a provision for this.

10. Current liabilities

	31 December 2018	31 December 2017
Fees from institutional clients received in advance	30,709	2,209
Accruals and deferred income	17,864	18,951
Taxes and social security contributions	12,728	3,927
Amounts owed to group companies	3,381	-
Creditors	2,754	6,234
Outstanding pension payments	137	93
Total	67,573	31,414

All current liabilities have a remaining term of less than one year.

Fees from institutional clients received in advance

The fees received in advance largely relate to the client fee received in advance in the first quarter of 2019 and invoices for work for institutional clients involving board advice, pensions administration and asset management activities.

Accruals and deferred income

The item accruals and deferred income primarily consists of amounts payable, reserves for holiday days, bonuses for personnel and interest payments.

Taxes and social security contributions

This relates to payroll taxes and social security contributions still to be paid.

11. Off-balance sheet assets and liabilities

Claims

Several claims have been lodged against the company and/or group companies that are being challenged. Although the outcome of these disputes cannot be predicted with certainty, it is assumed – on the basis of legal advice received – that they will not adversely affect the consolidated financial position.

Credit facility PFZW

PGGM N.V. has a credit facility with Stichting Pensioenfonds Zorg en Welzijn (PFZW). PGGM N.V. pays interest equal to the EURIBOR rate with a 50 basis point mark-up for any withdrawals from this credit facility. The maximum of the total credit facility is set at € 150mIn. The credit facility was made available from 1 January 2008 for an indefinite period. No repayment arrangement has been made. PGGM N.V. made no use of the credit facility with PFZW in 2018.

Balance and interest set-off system

Together with its subsidiaries and its sole shareholder PGGM Coöperatie U.A., PGGM N.V. makes use of the balance and interest set-off system at one of the major Dutch banks.

Liability of a tax entity

Together with its subsidiaries and single shareholder, PGGM Coöperatie U.A., PGGM N.V. forms a tax entity for corporation tax purposes and, for that reason, is jointly and severally liable for all the ensuing liabilities.

In addition, together with its subsidiaries, PGGM N.V. forms part of a tax entity for value added tax purposes, as a result of which it is jointly and severally liable for any VAT liabilities of the entities belonging to the tax entity.

Operational lease liabilities

The operational lease liabilities relate to lease cars provided to personnel. The liability runs until 2023. The total liability amounted to € 4.3mIn as at 31 December 2018 (2017: € 4.5mIn). An amount of € 1.6mIn (2017: € 1.6mIn) is payable within one year.

Buildings liability

The total liability on the basis of maintenance contracts amounted to € 3.1mIn as at 31 December 2018 (2017: € 3.1mIn). The liability runs until 2021.

Hardware and software liability

The total liability amounted to € 9.6mIn as at 31 December 2018 (2017: € 8.0mIn). The liability runs until 2024. An amount of € 8.7mIn (2017: € 4.8mIn) is payable within one year.

Issued guarantee Rabo PGGM PPI

PGGM N.V. has issued a guarantee of €875,000 to finance the costs of Stichting Rabo PGGM Premiepensioeninstelling.

Issued guarantee PGGM Levensverzekeringen N.V.

PGGM N.V. has issued specific guarantees for the sale of PGGM Levensverzekeringen N.V. The guarantees issued run until 2023.

Issued guarantee Volo

PGGM N.V. and Volo conducted negotiations on the settlement and liquidation of Volo pensioen in 2018 resulting in the drawing up of a settlement agreement. In addition to the aforementioned guarantee, PGGM N.V. issued another guarantee of € 0.6mln until 2020 recorded under the provisions. PGGM N.V. (legally) settled the entire guarantee of € 1.57mln with Volo in September 2018.

12. Revenue

Management fees

	2018	2017
Management fees for asset management	126,627	119,042
Management fees for pension administration	114,948	111,015
Management fees for policy advice and board support	36,528	34,074
Total	278,103	264,131

Management fees for asset management

The fees for asset management relate to the asset management activities for institutional clients and PGGM funds. A management fee is charged for these services. These fees are renegotiated each year.

Management fees for pensions administration

The fees for pensions administration concern administration and management services for pension funds.

Management fees for policy advice and board support

The fees for policy advice and board support concern the advisory services in the fields of investment policy, pensions policy, fiduciary, financial and actuarial advice and management support services (accounting, reporting and relationship management).

Other revenue

	2018	2017
Revenue from members	597	571
Other revenue	18	254
Total	615	825

Revenue from members

The revenue from members' activities consists of payments for organising paid activities for PGGM Coöperatie U.A. members. In addition, a fixed fee was paid by PFZW in 2018 for communications in relation to mortgages contracted via Attens.

13. Cost of outsourced work and other external expenses

	2018	2017
External personnel	47,733	36,492
Consultancy fees	1,272	3,356
Outsourcing of administration	-	1,091
Other service bureaus	-	1,062
Total	49,005	42,001

The delay in the modernisation of the basic administration led to higher costs for hire of IT staff and test capacity at Pensioenbeheer.

14. Personnel expenses

	2018	2017
Salaries	117,195	117,064
Pension costs	14,295	13,481
Social security costs	13,441	12,541
Other employee costs	14,232	13,744
Total	159,163	156,830

On the basis of full-time equivalents, the average number of employees at year-end was as follows:

	2018	2017
Pensioenbeheer	490	405
Information, Finance, Control	383	363
Vermogensbeheer	363	347
Institutional Business	161	148
Corporate Staff diensten	81	90
PGGM&CO members' organisation	19	19
Total	1,497	1,372

The average number of FTEs for 2018 is 1,424 (2017: 1,351).

Employee pension scheme of PGGM N.V.

The employee pension scheme of PGGM N.V. is incorporated into the PFZW industry-wide pension fund. The retirement pension is a defined benefit plan on the basis of the (conditionally) indexed average salary. Indexation of the retirement benefits depends on the financial position of the pension fund.

The premium due to the pension fund is recognised in the income statement as an expense, and, if this premium has not yet been paid to the pension fund, it is accounted for as a liability in the balance sheet.

PGGM N.V. is not obliged to pay additional contributions in the event of a shortfall in the fund, other than to meet any higher future premium contributions.

Remuneration of executive and supervisory directors

The total remuneration of the members of the Executive Board is as follows:

2018	Periodically Paid Remuneration	Remuneration payable in the future	Total
	Gross salary and holiday allowance	Pension costs	
Edwin Velzel	493	29	522
Paul Boomkamp	430	29	459
Total	923	58	981

2017	Periodically Paid Remuneration	Remuneration payable in the future	Total	
	Gross salary and holiday allowance	Pension costs	Sabbatical	
Else Bos*	406	23	265	694
Edwin Velzel**	81	5	-	86
Paul Boomkamp	425	27	-	452
Total	912	55	265	1,232

* CEO until 31 October 2017

** CEO from 1 November 2017

The periodically paid remuneration relates to the sum of the gross salary and the holiday allowance.

Pension costs and the sabbatical are shown under 'Remuneration payable in the future'.

The remuneration of board members is stated in accordance with Book 2, Section 383c of the Dutch Civil Code. For a more detailed explanation of the remuneration of the members of the Executive Board, see the Directors' Report.

Each member of the Supervisory Board receives an annual fee of € 28,819 (2017: € 28,676). The Chair receives an annual fee of € 33,335 (2017: € 33,169). These fees include work undertaken for the Audit, Risk and Compliance Committee and the Remuneration, Selection and Appointments Committee and are exclusive of travel expenses and VAT. In 2018, the total remuneration of the Supervisory Board was € 168,434, exclusive of VAT (2017: € 159,054). In 2018, the fees paid to the Supervisory Board were indexed by 1 percent effective as from 1 July 2018.

No loans, advances or guarantees were provided to the members of either the Executive Board or the Supervisory Board.

15. Amortisation of intangible fixed assets and depreciation of tangible fixed assets

	2018	2017
Amortisation of intangible fixed assets	15,883	15,879
Depreciation of tangible fixed assets	5,628	6,223
Total	21,511	22,102

16. Other operating expenses

	2018	2017
IT costs	33,010	25,209
Accommodation expenses	4,770	3,908
Marketing expenses	382	4,843
Other expenses	22,743	5,819
Total	60,905	39,779

The other expenses in 2018 include the provision allocation for Leven, the reserve for the cost of the winding up and liquidation of Volo and the settlement of the guarantee to Volo.

17. Taxes

	2018	2017
Tax expense	3,186	1,122
Change in deferred tax assets	-2,384	-94
Adjustment of deferred tax liabilities due to reduction in corporation tax rates	-1,877	-
Change in deferred tax liabilities	-	-12
Total	-1,075	1,016
Nominal tax liability	25,00%	25,00%
Adjustment of deferred tax liabilities due to reduction in corporation tax rates	-15,3	0%
Non-taxable revenue and expenses	-0,94%	0,86%
Effective tax liability	8,76%	25,86%

The reduction is due primarily to the ratio of the commercial result, changes in deferred tax assets and the adjustment of the deferred tax liability due to a reduction in corporation tax rates.

18. Transactions with related parties

Transactions with related parties are said to exist when there is a relationship between the company, its participating interests and their board members and management. There were no transactions with related parties which were not conducted at arm's length. See the notes on personnel costs for the remuneration of board members.

19. Auditors' fees

Pursuant to Book 2, Section 382a(3) of the Dutch Civil Code, reference is made to the financial statements of PGGM Coöperatie U.A. for an explanation of the auditors' fees.

20. Post-balance sheet events

No relevant events with an impact on the financial statements for 2018 occurred after the balance sheet date.

21. Risk management

For the implementation of risk management, we use the PGGM Risk framework to structurally provide insight into, monitor and report on risks. PGGM's Risk framework is based on the internationally accepted standard COSO Enterprise Risk Management (COSO ERM 2017) methodology.

Risk management at PGGM is organised in accordance with the generally accepted 'three lines of defence' model. The ownership and primary risk management are vested in the line management (first line) here. The Finance & Control and Risk & Compliance departments supervise and report on the risks (second line). Internal Audit assesses whether the management demonstrably complies with the different requirements set in relation to risk management (third line). Each line has its own tasks and responsibilities.

Within risk management, a distinction is made between the risks run by our institutional clients directly in terms of their own investments and the risks faced by the organisation. PGGM recognises the following risks: solvency, market, currency, interest rate, credit, liquidity and concentration risks.

Solvency risk

PGGM N.V. and its subsidiaries that qualify as financial companies as defined in the Wft are designated as the guideline group. This means that they are subject to prudential supervision by DNB. Under this act, requirements are stipulated for capital adequacy. PGGM has opted to use the method whereby the capital adequacy is calculated on the basis of the difference between the equity of the guideline group and the sum of the solvency requirements of the group divisions. On this basis, PGGM N.V. complies with the statutory requirements.

The regulatory authorities also have imposed a solvency requirement on Vermogensbeheer, Treasury and PSAS. During the regular internal control relating to the 2017 annual report of PGGM Strategic Advisory Services B.V., an equity shortfall of 58 thousand euros was identified in relation to the prudential requirements pursuant to the Wft as of the balance sheet date of 31 December 2017. In January 2018, the shareholder PGGM N.V. made a direct allocation to the share premium reserve of 250 thousand euros, raising the equity well above the minimum equity requirement. A surplus arose as a result of the appropriation of the profit for the 2017 financial year to the equity as a result of the profit appropriation decision in the adoption of the financial statements for 2017 by PGGM Strategic Advisory Services B.V.

The existing and required solvency positions at group level are as follows.

Solvency	31 December 2018	31 December 2017
Total equity	198,040	209,763
Statutory requirement	49,590	49,985
Surplus	148,450	159,778

Market risk

The market risk is the price risk of a fall in the value of the investments due to a change in market factors. Since PGGM N.V. does not hold any investments, the market risk is negligible.

Currency risk

The currency risk is the risk that the value of an investment and/or the value of a participation abroad will fall as a result of changes in exchange rates. Since PGGM N.V. does not hold any investments and the participating interest outside the Netherlands is of a very limited size, the currency risk is negligible.

Interest rate risk

The interest rate risk is the risk that the balance of the value of bonds and loans changes as a result of changes in market rates. Since PGGM N.V. does not hold any bonds or loans, the interest rate risk is negligible.

Credit risk

The credit risk is defined as the risk that counterparties are unable to fulfil their contractual obligations. This concerns other participating interests, loans, receivables, including accounts receivable and cash. In respect of the bad debts risk, this primarily relates to the management fees due which are laid down in the Service Level Agreements that PGGM N.V. has concluded with its clients. Since PGGM N.V.'s clients are Dutch pension funds, the risk as a consequence of insolvency is low.

PGGM N.V. has a policy concerning the retention of cash. As a result of this policy, PGGM N.V. holds its cash exclusively at major Dutch banks. PGGM N.V. continuously assesses this policy and has classified this credit risk as minor.

Liquidity risk

The liquidity risk (including the cash flow risk) is the risk that the volume and the timing of cash flows within approximately one year are not adequately matched, whereby a shortfall of cash cannot be (easily) compensated. PGGM N.V. has a credit facility of € 150mIn with PFZW, which is more than sufficient to manage this risk.

Concentration risk

PGGM N.V. runs a concentration risk when it is dependent on providing services to a single client. PGGM N.V. is exposed to concentration risk due to the relative importance of its largest client. This risk is mitigated by fleshing out this strategic partnership in constant dialogue with the largest client and by pursuing active stakeholder management.

Company financial statements for 2018

Company balance sheet as at 31 December 2018

(before profit appropriation)
(amounts in thousands of euros)

	Ref.	31 December 2018	31 December 2017
Assets			
Fixed assets			
Intangible fixed assets	22	15,349	30,211
Tangible fixed assets	23	83,782	86,622
Financial fixed assets	24	109,989	103,077
Total fixed assets		209,120	219,910
Current assets			
Receivables	25	13,655	11,476
Cash	26	38,610	55,916
Total current assets		52,265	67,392
Total assets		261,385	287,302
Liabilities			
Equity			
Paid and called-up capital	27	200	200
Statutory reserve		6,641	5,664
Share premium reserve		158,712	158,712
Other reserves		43,681	42,274
Undistributed profit		-11,194	2,913
Total equity		198,040	209,763
Provisions		18,215	12,009
Total provisions		18,215	12,009
Current liabilities	28	45,130	65,530
Total liabilities		261,385	287,302

Company income statement for 2018

(amounts in thousands of euros)

	Ref.	2018	2017
Result of participating interests		8,891	13,667
Other results after taxes	30	-20,085	-10,754
Result after taxes		-11,194	2,913

Notes to the company financial statements 2018

The company financial statements form part of PGGM N.V.'s 2018 consolidated financial statements. In respect of the company's separate income statement, use is made of the exemption by virtue of Book 2, section 402, of the Dutch Civil Code. Please refer to the notes to the consolidated balance sheet and consolidated income statement for items in the company balance sheet and the company income statement not specifically addressed below.

22. Intangible fixed assets

The intangible fixed assets are further explained in the notes to the balance sheet in the consolidated financial statements. In this context, the categories goodwill (entirely) and software relate to PGGM N.V. for a book value as at 31 December 2018 of € 15.3mIn (31 December 2017: € 30.2mIn).

23. Tangible fixed assets

	<i>Land and buildings</i>	<i>Plant and equipment</i>	<i>Other operating assets</i>	<i>Total</i>
Balance as at 1 January 2017				
Cost price	93,166	3,211	19,783	116,160
Accumulated depreciation and impairment	-7,566	-2,400	-14,637	-24,603
Carrying amount as at 1 January 2017	85,600	811	5,146	91,557
Changes in 2017				
Investments	262	70	1,112	1,444
Disposals	-	-	-741	-741
Depreciation	-3,968	-188	-2,045	-6,201
Depreciation of disposals	-	-	563	563
Balance	-3,706	-118	-1,111	-4,935
Balance as at 31 December 2017				
Cost price	93,428	3,281	20,154	116,863
Accumulated depreciation and impairment	-11,534	-2,588	-16,119	-30,241
Carrying amount as at 31 December 2017	81,894	693	4,035	86,622
Changes in 2018				
Investments	24	198	1,239	1,461
Disposals	-	-	-136	-136
Revaluations	1,302	-	-	1,302
Depreciation	-3,986	-200	-1,396	-5,582
Depreciation of disposals	-	-	115	115
Adjustment of gross book value – revaluation	24	-	-	24
Adjustment of cumulative impairment and depreciation – revaluation	-24	-	-	-24
Balance	-2,660	-2	-178	-2,840
Cost price	94,778	3,479	21,257	119,514
Accumulated depreciation and impairment	-15,544	-2,788	-17,400	-35,732
Carrying amount as at 31 December 2018	79,234	691	3,857	83,782

Depreciation period

Land and sites:	Not subject to depreciation
Buildings - shells:	40 years
Buildings - completed:	25 years
Buildings - building-related systems:	15 years
Plant and equipment:	5-10 years
Other operating assets:	5-10 years

PGGM N.V. is the economic owner of the land and buildings. PGGM Coöperatie U.A. is the legal owner of both the land and the buildings.

24. Financial fixed assets

	31 December 2018	31 December 2017
Participating interests	92,733	86,092
Deferred tax assets	14,916	14,645
APF subordinated loan	2,340	2,340
	109,989	103,077

Participating interests

	2018	2017
Balance as at 1 January	86,092	104,425
Share premium payment	12,750	10,000
Dividend payment	-15,000	-42,000
Result of participating interests	8,891	13,667
Balance as at 31 December	92,733	86,092

Result of participating interests

The balance relates to the following participating interests:

Companies		
Name	Place of business	Share in subscribed capital
PGGM Financiële Services B.V.	Zeist, The Netherlands	100%
PGGM Pensioenbeheer B.V.	Zeist, The Netherlands	100%
PGGM Services B.V.	Zeist, The Netherlands	100%
PGGM Strategic Advisory Services B.V.	Zeist, The Netherlands	100%
PGGM UFO B.V.	Zeist, The Netherlands	100%
PGGM Vermogensbeheer B.V.	Zeist, The Netherlands	100%

Deferred tax assets

The deferred tax assets relate to the deferred tax arising from the deductible losses.

25. Receivables

	31 December 2018	31 December 2017
Receivables from group companies	10,365	8,324
Accounts receivable	123	140
Other receivables, prepayments and accrued income	3,167	3,012
Total	13,655	11,476

The remaining term of the receivables is less than one year.

Receivables from group companies

	31 December 2018	31 December 2017
PGGM Vermogensbeheer B,V,	9,204	2,664
PGGM Coöperatie U,A,	780	3,345
PGGM UFO B,V,	367	101
PGGM Treasury B,V,	14	-
PGGM Pensioenbeheer B,V,	-	1,818
PGGM Services B,V,	-	218
PGGM Financiële Services B,V,	-	178
Total	10,365	8,324

No interest is charged on the receivables from group companies.

Other receivables, prepayments and accrued income

The other receivables, prepayments and accrued income as at 31 December 2018 primarily consist of prepaid expenses.

26. Cash

Cash relates to credit balances which are held in major Dutch banks. The company's own cash forms part of the balance and interest set-off system within PGGM. As a result of participation in the interest set-off system, the company is jointly and severally liable for all obligations arising from this.

An amount of € 8.2mln of the cash is not freely available (year-end 2017: € 8.2mln). This concerns the balance of a blocked account retained in relation to the sale of the life insurance activities.

27. Equity

	Paid and Called-up Capital	Statutory Reserve	Share Premium Reserves	Other Undistributed Reserves	Undistributed Profit	Total
Balance as at 1 January 2017	200	5,664	158,712	40,947	1,327	206,850
Appropriation of profit for 2016	-	-	-	1,327	-1,327	-
Result for 2017	-	-	-	-	2,913	2,913
Balance as at 31 December 2017	200	5,664	158,712	42,274	2,913	209,763
Appropriation of profit for 2017	-	-	-	2,913	-2,913	-
Revaluation reserve for tangible fixed assets	-	977	-	-	-	977
Movements resulting from reduction in corporation tax rates	-	-	-	-1,506	-	-1,506
Result for 2018	-	-	-	-	-11,194	-11,194
Balance as at 31 December 2018	200	6,641	158,712	43,681	-11,194	198,040

The authorised capital is € 1mln (2017: € 1mln), consisting of one thousand shares, each with a nominal value of € 1,000. As at 31 December 2018, two hundred shares were subscribed and paid up.

Revaluation reserve

The changes in the statutory reserve in 2018 concern changes in the revaluation reserve for the land and buildings as a result of a new appraisal performed by the external appraiser at the end 2018.

Reduction in corporation tax rates

As a result of the reduction in corporation tax rates, the deferred taxation was reduced at year-end 2018 as a result of temporary differences. The impact of the write-down is € 3.4mIn. Deferred taxation of € 1.5mIn relating to the building was taken directly to equity, as this deferral was also shown directly via the equity in the preceding years. The remainder is charged to taxes in the income statement.

Undistributed profit

The result after tax for 2018 is part of the undistributed profit of the equity item.

Proposal for profit appropriation

During the General Meeting of Shareholders it is proposed that the result after tax for 2018 be credited to the other reserves.

28. Current liabilities

	31 December 2018	31 December 2017
Amounts owed to credit institutions	14,575	46,995
Taxes and social security contributions	12,728	3,927
Amounts owed to group companies	7,361	364
Accruals and deferred income	8,864	10,362
Creditors	1,340	3,657
Outstanding pension payments	137	93
Amounts owed to policy-holders from direct insurance	125	132
Total	45,130	65,530

The current liabilities all have a remaining term of less than one year.

Amounts owed to credit institutions

Amounts owed to credit institutions are debts held with Dutch credit institutions.

Taxes and social security contributions

This relates to payroll taxes and social security contributions still to be paid.

No interest is charged on the amounts owed to group companies.

29. Transactions with related parties

Transactions with related parties are said to exist when there is a relationship between the company, its participating interests and their board members and management.

There were no transactions with related parties which were not conducted at arm's length.

30. Other results after taxes

Other results after taxes relate to:

	2018	2017
Amortisation of intangible fixed assets and depreciation of tangible fixed assets	-14,895	-14,895
Other revenue and operating expenses	-81,319	-66,116
Charged-on operating expenses	71,928	66,683
Taxes result	4,201	3,574
Total	-20,085	-10,754

31. Post balance sheet events

There were no significant events after the balance sheet date that impact the 2018 Financial Statements.

Zeist, 17 april 2019

Executive Board:

Edwin Velzel (CEO)

Paul Boomkamp

Raad van Commissarissen:

Marjanne Sint (Chair)

Micky Adriaansens

Henk Broeders

Miriam van Dongen

Eric de Macker

Jan van Rutte

Other information



Independent auditor's report

To: the General Meeting of Shareholders and the Supervisory Board of PGGM N.V.

Report on the audit of the financial statements 2018 included in the annual report

Our opinion

In our opinion the accompanying financial statements give a true and fair view of the financial position of PGGM N.V. as at 31 December 2018 and of the result for 2018, in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the financial statements 2018 of PGGM N.V. ('the company'), based in Zeist.

The financial statements comprise:

- 1 the consolidated and company balance sheet as 31 December 2018;
- 2 the consolidated and company income statement for 2018; and
- 3 the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of PGGM N.V. in accordance with the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit approach

Summary

Materiality	
—	Materiality of EUR 2.0 million
—	0.7% of the management fees

Group audit	
—	Full-scope audit of the significant group entities
—	99% of total assets
—	99% of revenue

Key audit matters	
—	Valuation property
—	Existence and accurate processing of the management fees
—	Reliability and continuity of the electronic data processing

Opinion	
	Unqualified

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 2.0 million (2017: EUR 1.25 million). The materiality is determined with reference to the management fees (0.7%). We consider the management fees as the most appropriate benchmark as it demonstrates the nature of the business and because it is a stable indicator for the size of the company. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of EUR 100,000 (2017: EUR 60,000), which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

PGGM N.V. is at the head of a group of entities. The financial information of this group is included in the financial statements of PGGM N.V.

Our group audit mainly focused on significant components, based on the size and nature of the group components, which are PGGM Vermogensbeheer B.V., PGGM Pensioenbeheer B.V., PGGM Strategic Advisory Services B.V. and PGGM Treasury B.V. For these significant group components, we have performed audit procedures ourselves. Based on the nature and the size of the component it is determined whether a group component is significant. The audit coverage as stated in the section Summary amounts to 99% of the total assets and 99% of the revenue.

By performing the procedures mentioned above at group components, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the financial statements.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation property

Description

PGGM N.V. values the property based on the accounting principle fair value, which is the lowest of the current cost and the recoverable amount. As the asset is acquired, PGGM N.V. uses the current cost to implement the fair value. The determination of the current cost is strongly dependent on market variables, including the estimated initial rate of return, land prices and the appropriate adjustment factors. PGGM N.V. has engaged an external appraiser for support at determining the current purchase price of the property. The notes on page 71 and page 79 (note 4 'Tangible fixed assets') include the applied valuation principles and the movement schedule of the property.

The determination of the current cost of the property requires a high degree of judgement of the directors and contains subjective elements of estimation. Therefore, combined with the size of the account in the financial statements, we consider the valuation of the property as a key matter in our audit.

Our response

We assessed the substantiation of the valuation by PGGM N.V. and included the valuation report of the external appraiser to make this assessment. We evaluated the independence of the external appraiser engaged by PGGM N.V., reviewed the assumptions applied by PGGM N.V., inspected the appraisal report and involved our internal valuation specialist to assess the valuation method and valuation parameters as applied by PGGM N.V.

Our observation

The accounting principles of the property and the recognition and disclosure in the financial statements are in accordance with the financial reporting standard. We determined that the valuation method applied by PGGM N.V. is reasonable and that the applied valuation parameters are within our expected range.

Existence and accurate processing of the management fees

Description

PGGM N.V. receives management fees for various asset management activities, pension administration activities and advisory services which PGGM N.V. performs for its clients. These management fees amount to EUR 278 million in 2018 (2017: EUR 264 million) and are PGGM N.V.'s largest financial statement caption on a consolidated level.

In view of the size of the management fees we consider the existence and accurate processing of the management fees in the financial statements as a key matter in our audit.

Our response

PGGM N.V. has a central revenue administration. Given this central revenue administration, we have performed all procedures related to the management fees on group level and have determined whether the management fees are correctly allocated to the components of PGGM N.V. Our work consisted, among other procedures, of:

- performing a reconciliation of the recorded revenue with the underlying contracts. We have evaluated the authenticity for each contract and by inspecting the contracts we have verified that it has been signed by all parties;
- performing a reconciliation of the management fees from the asset management activities with the asset management expenses as stated in the financial statements of the PGGM investment funds. The financial statements of the investment funds with liquid investments are accompanied by an auditor's report from the external auditor. For the management fees related to PGGM investment funds for which no audited financial statements over 2018 were available during our audit, we have performed substantive procedures ourselves;
- performing procedures on the recorded management fees to verify that these have been paid by the counterparties to PGGM by inspecting the bank statements.

Our observation

Based on our procedures we have determined that the management fees exist and are accurately processed in the financial statements of PGGM N.V.

Reliability and continuity of the electronic data processing

Description

The core activities of the group entities rely to a large extent on electronic data processing. Due to their nature, the core activities are highly dependent on the reliable and continuous operation of the IT infrastructure, which consequently is a prerequisite to be able to effectively serve the company's clients. The reliability and continuity of the electronic data processing consequently forms a key matter in our audit.

Our response

We have assessed the reliability and continuity of the electronic data processing in the context of our audit of the financial statements. We have included specialist IT auditors in our audit team for this purpose. Our work consisted, inter alia, of:

- evaluating changes in the IT infrastructure;
- reviewing the internal audits conducted by PGGM N.V., in particular those focused on general IT controls and IT application controls and ascertaining the impact thereof on our audit strategy;
- testing the internal control measures that were relevant for our audit related to IT systems and processes, for example in relation to the payment process, authorization management and IT security.

Our observation

Our procedures related to the configuration, existence and operation of the IT systems in the context of the audit of PGGM N.V.'s financial statements did not reveal any significant findings in terms of the reliability and continuity of the electronic data processing.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- Foreword;
- About PGGM;
- Directors' report;
- Corporate Governance; and
- Other information.

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements; and
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The Executive Board is responsible for the preparation of the other information, including the directors' report in accordance with Part 9 of Book 2 of the Dutch Civil Code and the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Description of responsibilities regarding the financial statements

Responsibilities of the Executive Board and the Supervisory Board for the financial statements

The Executive Board is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Executive Board is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Executive Board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Executive Board should prepare the financial statements using the going concern basis of accounting unless the Executive Board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Executive Board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

Amstelveen, 17 April 2019
KPMG Accountants N.V.

F.M. van den Wildenberg RA

Appendix:

Description of our responsibilities for the audit of the financial statements

Appendix

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among other procedures:

- identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Executive Board;
- concluding on the appropriateness of the Executive Board's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on PGGM N.V.'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern;
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group components. Decisive were the size and/or the risk profile of the group components or operations. On this basis, we selected group components for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

We confirm to the Supervisory Board that we pursued the relevant ethical requirements regarding independence. We also communicate with them regarding the relationships and other business that reasonably can influence our independence and the corresponding measures taken to secure our independency.

From the matters communicated with the Supervisory Board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Statutory provisions governing the appropriation of the result

Article 35 of the Articles of Association reads as follows:

- 35.1 Distribution of profits shall be made following the adoption of the annual accounts which show that such distribution is allowed.
- 35.2 The profits shall be at the free disposal of the General Meeting of Shareholders.
- 35.3 On the recommendation of the Executive Board, the General Meeting shall be authorised to resolve to make a distribution from the reserves, without prejudice to Article 35.4.
- 35.4 The company may only make distributions to the shareholders and other persons entitled to the profit intended for distribution to the extent that its equity exceeds the subscribed capital plus the reserves which must be maintained pursuant to the law.
- 35.5 The company may make interim distributions provided that the requirement of article 35.4 is complied with as evidenced by an interim financial statement as referred to in article 2:105(4) of the Dutch Civil Code.
- 35.6 When calculating the share distribution, the shares which the company holds in its own share capital are not included.
- 35.7 A deficit may only be charged to the statutory reserves to the extent that this is permitted by law.

General

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Chamber of Commerce number 30228472

Executive Board

Edwin Velzel (CEO)
Chief Executive Officer (CEO)

Paul Boomkamp
Chief Financial & Risk officer (CFRO)

Auditor

KPMG Accountants N.V.
PO Box 74500
1070 DB Amsterdam
The Netherlands

Laan van Langerhuize 1
1186 DS Amstelveen
The Netherlands
Telephone +31 20 6567890

Information

For any questions regarding the content of this Annual Report, please contact us at:
www.pggm.nl/jaarverslag

Retirement schedule of the Supervisory Board

Name	Date of appointment	Date of first reappointment	End of term of appointment
Marjanne Sint (Chair)	01-04-2018	01-04-2022	01-04-2026
<i>Miriam van Dongen</i> (Deputy Chair)	13-06-2013	13-06-2017	13-06-2021
Eric de Macker	01-10-2015	01-10-2019	01-10-2023
Jan van Rutte	17-05-2017	17-05-2021	17-05-2025
Micky Adriaansens	01-01-2018	01-01-2022	01-01-2026
Henk Broeders	01-11-2018	01-11-2022	01-11-2026

Regulation of the Articles of Association:

Article 23(1) of the Articles of Association of PGGM N.V.: a supervisory director shall step down no later than the date of the first General Meeting held after the end of four years following his or her latest appointment. At the end of his or her term of office, a supervisory director may be reappointed, on the understanding that he or she shall step down no later than the date of the first General Meeting held after he or she has served for eight years as a supervisory director, consecutively or otherwise; thereafter, he or she may not be reappointed.

Ancillary positions held by members of the Supervisory Board

Micky Adriaansens (1964)

Nationality: Dutch

Main position: CEO of Twijnstra Gudde

Executive and supervisory positions

- Member of the Supervisory Board of PGGM N.V. and of the Remuneration, Selection and Appointments Committee
- Member of the Supervisory Board of Insinger Gilissen Bankiers N.V. (since April 2018)
- Chair of the Board of Twijnstra Gudde Holding B.V.
- Member of the Supervisory Council of Stichting Amsta

Henk Broeders (1964)

Nationality: Dutch

Main position: Supervisory Director/Supervisor

Executive and supervisory positions

- Member of the Supervisory Board of PGGM N.V. and Member of the Audit, Risk and Compliance Committee
- Member of the Supervisory Board and Chair of the Audit Committee of Alexander Monro Hospital
- Chair of the Board of Stichting Hanarth Fonds
- Board member of Stichting Steun VUmc Alzheimercentrum
- Senior partner McKinsey & Company (until end of 2018)

Miriam van Dongen (1969)

Nationality: Dutch

Main position: Supervisory Director/Supervisor

Executive and supervisory positions

- Deputy Chair of the Supervisory Board of PGGM N.V. and Chair of the Audit, Risk and Compliance Committee
- Member of the Supervisory Board and Chair of the Audit Committee of Kadaster (Land Registry Office)
- Member of the Supervisory Board, Chair of the Audit Committee, Member of the Risk Committee and Member of the Remuneration and Appointments Committee of Vivat N.V.
- Member of the Supervisory Board and Chair of the Audit Committee Optiver Holding B.V.
- Member of the Board of Stichting Administratiekantoor Aandelen KASBANK
- Member of the Board of Stichting de Bron

Eric de Macker (1960)

Nationality: Dutch

Main position: Supervisory Director/Supervisor

Executive and supervisory positions

- Member of the Supervisory Board of PGGM N.V. and Chair of the Remuneration, Selection and Appointments Committee
- Member of the Supervisory Board of Stichting Rivierduinen GGZ
- Member of the Advisory Council of Nederlandse Vereniging van Arbeidsdeskundigen
- Member of the Advisory Council of Stichting CNV Internationaal

Jan van Rutte (1950)

Nationality: Dutch

Main position: Supervisory Director/Supervisor

Executive and supervisory positions

- Member of the Supervisory Board of PGGM N.V. and Member of the Audit, Risk and Compliance Committee
- Chair of the Supervisory Board and member of the Human Resources & Organisation Committee of Volksbank N.V.
- Member of the Supervisory Board and member of the Audit Committee of BNG Bank N.V.
- Member of the Supervisory Board of ORMIT Holding B.V.
- Member of the Supervisory Board of Nederlandse Investeringsinstelling N.V.
- Member of the Supervisory Board of Stichting Health Center Hoenderdaal
- Member of the Board of Stichting Administratiekantoor KASBANK
- Member of the Board of ABN AMRO Foundation

Marjanne Sint (1949)

Nationality: Dutch

Main position: Supervisory Director/Supervisor

Executive and supervisory positions

- Chair of the Supervisory Board of PGGM N.V. and member of the Remuneration, Selection and Appointments Committee
- Chair of the Supervisory Board of the Bank Nederlandse Gemeenten
- Member of the Supervisory Board of NL Healthcare Clinics
- Chair of Transitieautoriteit Jeugd
- Chair of Assessment Committee of STZ Topklinisch Zorgregister
- Chair of IBO (internationalisation of education)

Report on the remuneration of the Executive Board

This report concerns the remuneration of the members of the Executive Board. The report first describes the vision underlying the remuneration policy for the members of the Executive Board. The report then covers the 2018 remuneration package for the members of the Executive Board.

Remuneration policy vision

The remuneration policy for the Executive Board is adopted by the General Meeting of Shareholders after a proposal from the Supervisory Board. The objective of the remuneration policy is to attract, retain and motivate qualified members to the Executive Board. Our aim is to have a transparent and responsible remuneration policy: fair remuneration for measurable performance. In addition to the realisation of objectives, the way in which performance is achieved (competencies and values) is also taken into account in assessments and consequently in the remuneration. In terms of policy and implementation, our remuneration policy is consistent with our culture and our values (supportive, responsible and steadfast).

The members of the Executive Board are appointed by the Supervisory Board after consulting the shareholder. Effective from 2013, the Executive Board comprises two members. The members of the Executive Board are appointed for a four-year term, with the option of reappointment.

The chair of the Executive Board (CEO), Edwin Velzel, was appointed on 1 November 2017. Paul Boomkamp was appointed as a member of the Executive Board in the position of CFRO effective 1 September 2015.

The remuneration policy for the members of the Executive Board is in accordance with laws and regulations governing remuneration and is additionally in accordance with the best practice provisions of the Dutch Corporate Governance Code.

Executive Board remuneration package

The total remuneration package of the members of the Executive Board consists of salary, pension and social security contributions. The members of the Executive Board are not entitled to variable remuneration. Members are not provided with remuneration in the form of shares, options and the like. The annual remuneration package is set by the Supervisory Board.

Salary

The salary of the members of the Executive Board is based on the market profile of the remuneration of executive directors at a similar level, with due consideration for PGGM's positioning. The salary is adjusted each year in accordance with the average of the percentages and amounts by which salaries were adjusted in the previous calendar year on the basis of three cao's (Hospital Sector, Insurance Industry, Banking Business). Effective 1 January 2018, the salary increased by 1.1% in comparison with 2017.

The salary for the members of the Executive Board is based on a rating according to the Hay classification; the job level of the chair is one level higher. The fixed salaries and other remuneration components are included in the financial statements. The pension and social security contributions are in accordance with the collective labour agreement.

Ancillary positions held by members of the Executive Board

Edwin Velzel (1963)

Nationality: Dutch

Current position: Chief Executive Officer, PGGM N.V.

Executive and supervisory positions

- Chair of the Executive Board of PGGM N.V.
- Member of the Supervisory Board of PGGM Vermogensbeheer B.V.
- Member of the Supervisory Board of Klaverblad Verzekeringen
- Member of the Supervisory Board of Atal-Medial (Laboratory) (until May 2018)
- Chair of the Supervisory Board of PoZoB (GP group) (until May 2018)
- Member of the Supervisory Board of Omring (Care and Nursing)

Paul Boomkamp (1969)

Nationality: Dutch

Current position: Chief Financial & Risk Officer PGGM N.V.

Executive and supervisory positions

- Member of the Executive Board of PGGM N.V.
- Member of the Supervisory Board of PGGM Vermogensbeheer B.V.
- Member of the Advisory Board of the Social Insurance Bank and Chair of the IT Advisory Committee
- Member of the Supervisory Board and Chair of the Audit Committee of Stichting Emergis, centre for mental healthcare in Goes