

The executive and supervisory directors

The Hague, 11 October 2018

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Subject: Eumedion Focus Letter 2019

Dear executive and supervisory directors,

This letter is the 14th 'Focus Letter' that Eumedion, the corporate governance and sustainability platform for institutional investors, sends to the Dutch listed companies. The priorities highlighted below are subjects we believe deserve your attention, not only because we regard them as important for the company you are managing or supervising, but also because they are of particular importance for the Eumedion participants – which are responsible and engaged institutional investors. The topics raised in this letter tend to form the starting point for the dialogues that Eumedion facilitates between individual listed companies and Eumedion participants in the run-up to the 2019 general meeting, and might possibly also be discussed at the general meeting itself.¹ Our two focus points for 2019 relate to the long-term value creation model of the company and board diversity and skills disclosures.

Focus point 1: Long-term value creation model

The revised Dutch corporate governance code places greater emphasis on long-term value creation for the company. The code requests the board to incorporate in the management report a more detailed explanation of its view on long-term value creation and the strategy for its realisation, as well as a description which contributions were made to long-term value creation in the past financial year.² Some listed companies have already integrated long-term value creation in their business models and report on creating value for all their stakeholders in a meaningful way³, which is laudable. We encourage all listed companies to take notice of these leaders and set the bar higher for the 2018 management report.

¹ Previous Eumedion Focus Letters and the annual evaluation of the AGM season can be found on <https://www.eumedion.nl/en/knowledgenetwork/speerheadsletter> and <https://www.eumedion.nl/en/knowledgenetwork/publications>.

² Best practice 1.1.4 of the revised Dutch corporate governance code.

³ Best practices are e.g. Royal Philips and Randstad.

A key principle of the revised Dutch corporate governance code is that the board should take into account the interests of all relevant stakeholder groups⁴ when developing the long-term strategy. Most companies report in detail on their “stakeholder dialogues” and on their “materiality matrix”. Only a small number of companies indicate how the interests of the relevant stakeholder groups were taken into account when making significant strategic decisions. We would like to understand to what extent the outcomes of the stakeholder engagements affected the board assessment of the long-term sustainability of the company’s business model and strategy. We would like to note that a serious lack of alignment between the interests of relevant stakeholder groups and the company’s strategy may not only be considered as a missed opportunity, but it may also result in backlashes from stakeholders, reputational damage and value destruction especially in the long run. In short, the long-term sustainability of the business model touches upon its effect on stakeholders, as much as the effect of a changing stakeholders’ views on the sustainability of the business model.

Eumedion requests the board(s) to use their discretion to periodically assess and, if necessary, to alter their business models, explicitly taking into account the interests of relevant stakeholder groups.

Examples of questions that could be raised when assessing the envisaged business model:

- What role does the company see for itself in serving the needs and demands of the company’s stakeholders five to ten years from now?
- How ambitious does the company aim to be in serving the interests of its relevant stakeholder groups?
- What are the company’s envisaged positive and negative impacts on its relevant stakeholder groups, including the use of inputs and the use of the product offering down the supply chain?
- Which trends, developments and fundamental changes in the external environment and in societal expectations is the company facing that may affect the sustainability of the business model?

Eumedion would welcome a specific paragraph in the strategy section of the management report that explains the long-term sustainability of the envisaged business model.

Focus point 2: Board diversity and skills disclosures

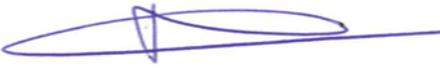
An increasing number of listed companies are enhancing their management reports with information on the competences that are present in the (supervisory) board and an explanation how this aligns with the company’s strategy and risk oversight needs. Numerous companies are using tables (‘board skills matrix’) to highlight other kinds of diversity which are present in the board, such as diversity of tenure, gender, age, nationality, knowledge, professional experience and socio-cultural background.

⁴ In particular the company’s shareholders, employees, creditors, suppliers, customers, the wider society and the environment.

We encourage all listed companies to disclose such tables. Disclosure of a well-developed, company-specific diversity and skills matrix may help stakeholders to understand how the board composition is aligned with the company's unique circumstances, strategy and risks. Using graphics to highlight the key aspects of the board's diversity — particularly those aspects that are not otherwise discernible⁵ — may help to demonstrate that the board values and considers such kind of diversity when making director nominations.

We are available should you require further clarification.

Yours faithfully,



Rients Abma
Executive Director

⁵ This goes beyond the gender diversity topic which is addressed in a separate letter to you.