Corporate Governance Committee
Rue des Sols 8
B-1000 Brussels
T + 32 2 515 08 59
F + 32 2 515 09 85
www.corporategovernancecommittee.be

EXPLANATORY NOTE ON SUSTAINABLE VALUE CREATION

EXPLANATORY NOTE ON SUSTAINABLE VALUE CREATION IN THE 2020 CODE

The Corporate Governance Committee (the Committee) defines **sustainability** as the capacity for continuance into the long-term future and **sustainable development** as the process through which economic development and rising prosperity contribute towards maintaining our natural environment and strengthening the fabric of society.

The Committee defines **sustainable value creation** as a corporation's pursuit of objectives which go beyond short- and medium-term financial metrics and share price performance and which incorporate the needs and expectations of the broader society in which it operates as well as the legitimate interests of its shareholders and other stakeholders.

Such a broad definition of corporate objectives not only enhances the legitimacy of the corporation but also its ability to endure. Furthermore, it reduces the risk and impact of major crises. Ultimately, it should also lead to better value creation for shareholders.

In the opinion of the Committee, the items described below are conducive to sustainable value creation.

1. Prioritising the long term

Sustainable value creation does not imply that short-term or medium-term objectives are unimportant or that periodic financial metrics should be neglected. However, it does imply that if there is a conflict between a corporation's short-term targets and long-term interests, priority should be given to long-term interests.

Managing potential trade-offs between the short and long term requires foresight and courage. Companies should refrain from making excessive or untenable promises about short-term and medium-term financial performance and should set their long-term targets carefully.

2. Appropriately defining corporate purpose

Companies benefit from articulating purposes that not only target financial success but also go further and describe how they aspire to contribute – through their technology, products, services and behaviours – to broader societal goals. When defined in a meaningful way and in conformity with the company's by-laws, a company's purposes will set a direction for the executive management as well as for the entire workforce. They will also guide the board in making strategic choices and will enhance the company's legitimacy in the eyes of all its stakeholders.

3. Integrating sustainability into corporate strategy

The world is facing a number of issues and changes that seriously challenge our planet and society at large. Significant course corrections will be necessary in order to avoid major crises. The United Nations' Sustainability Goals are a useful framework in this respect. It is the duty of a company's board and executive management to proactively address these challenges. In doing so, the company should anticipate emerging risks and constraints to its current business model and strategic portfolio. At the same time, and equally importantly it should endeavour to detect opportunities to innovate and offer new solutions to the challenges posed by sustainable development

4. Integrating sustainability into corporate operations

The company should ensure that it operates in line with the imperatives of sustainable development. Therefore, the company should set itself achievable and sufficiently ambitious improvement targets on environmental, social and governance (ESG) matters.

The process around the setting of such targets should involve executive and operational management and include an assessment of the expectations of outside stakeholders and the materiality of the externalities generated by the company.

5. Structured and verified reporting on ESG matters

Transparent external reporting on ESG targets and the company's annual performance with respect to these parameters will induce discipline around the pursuit of these objectives throughout the company. Such reporting should be independently verified.

Adhering to one of the established or emerging ESG reporting standards will help the company to set comprehensive targets and enhance its credibility. In this context, the Committee also refers to Euronext's "ESG Guidelines for listed companies".

6. Structured engagement by the board

The pursuit of sustainable value creation has been articulated as the primary task of the board in the Belgian Code on Corporate Governance (provision 2.1.). Therefore, the board should reflect actively on each of the above elements and discuss them at regular intervals. It should provide clear guidance as well as support to the executive management when facing potential trade-offs and strategic choices involving sustainability issues. It should also systematically monitor ESG performance and include this in executive management's performance evaluation.