



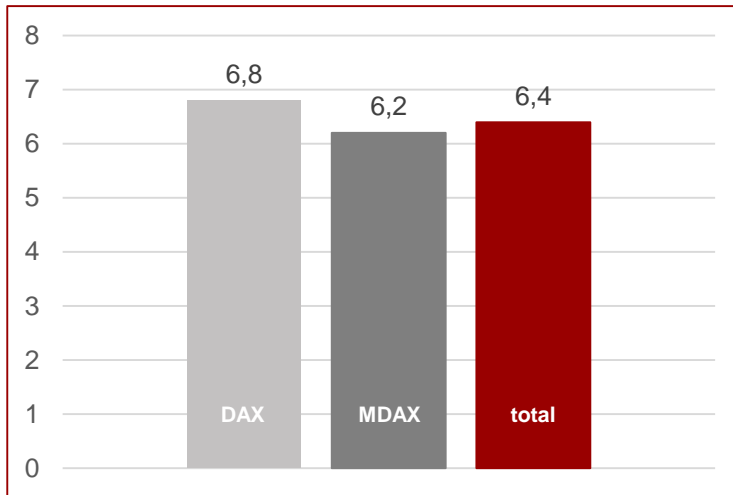
Board Performance Evaluation

Way forward to superior board efficiency

Benchmarking - Initial insights

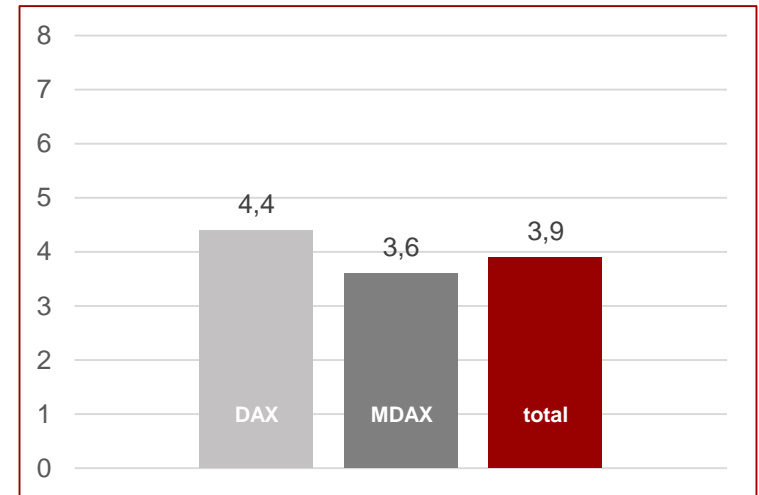
Board performance evaluations should be based on a comparison with relevant peers

Average number of supervisory board meetings
(DAX, MDAX and total)



- The **meeting frequency** ranges from 4 to 13 meetings a year (independent of board size)
- **Top10 boards** meet 9 times on average per year
- 42% of the DAX and 36% of the MDAX companies conduct additional **strategy workshops**

Average number of committees¹
(DAX, MDAX and total)



- Companies feature up to **seven committees**
- **Audit Committee** is, with an average of 5 meetings, the most active committee
- **Top10 DAX-companies** with an average number of **25 committee meetings** in total

► **Efficient monitoring demands high meeting frequency and active committees - how do you assess your performance in comparison to the peer group?**

¹ excluding mediation committees

Source: Aufsichtsrats-Score 2015

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diep-methodology for board performance evaluation

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Board Performance Evaluation - Objectives

Beyond compliance a professional board evaluation supports the implementation of best practices in board composition and procedures

„Boards should regularly carry out evaluations to appraise their performance and assess whether they possess the right mix of background and competences.”¹

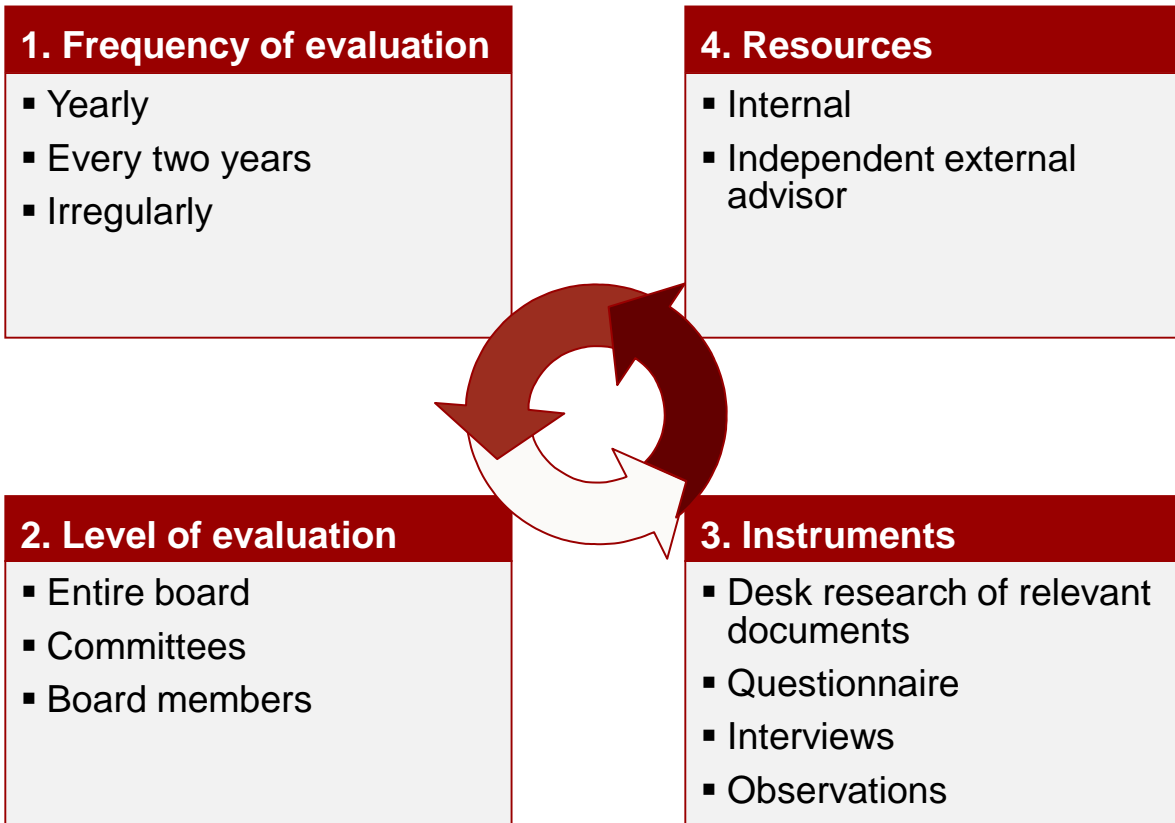
1. Ensuring **Compliance**
2. Reduction of **liability** and **reputation risk**
3. Fulfill expectations of **investors** and **rating agencies**
4. Identification of potential **improvement needs** and implementation of **benchmarks** and **board best practices**
5. Basis for a structured **succession planning** of board members
6. Strengthening **collaboration** and **discussion culture** within the board

▶ **External board performance evaluation has been established as a standard of good corporate governance**

¹ G20/OECD Principles of Corporate Governance No. VI.E.4; analogously implemented in national Corporate Governance Codes, e.g.: German Corporate Governance Code No. 5.6; UK Corporate Governance Code No. B.6, Dutch Corporate Governance Code No. III.1.7, The X Principles of Corporate Governance of the Luxembourg Stock Exchange Principle 6

Board Performance Evaluation - Dimensions

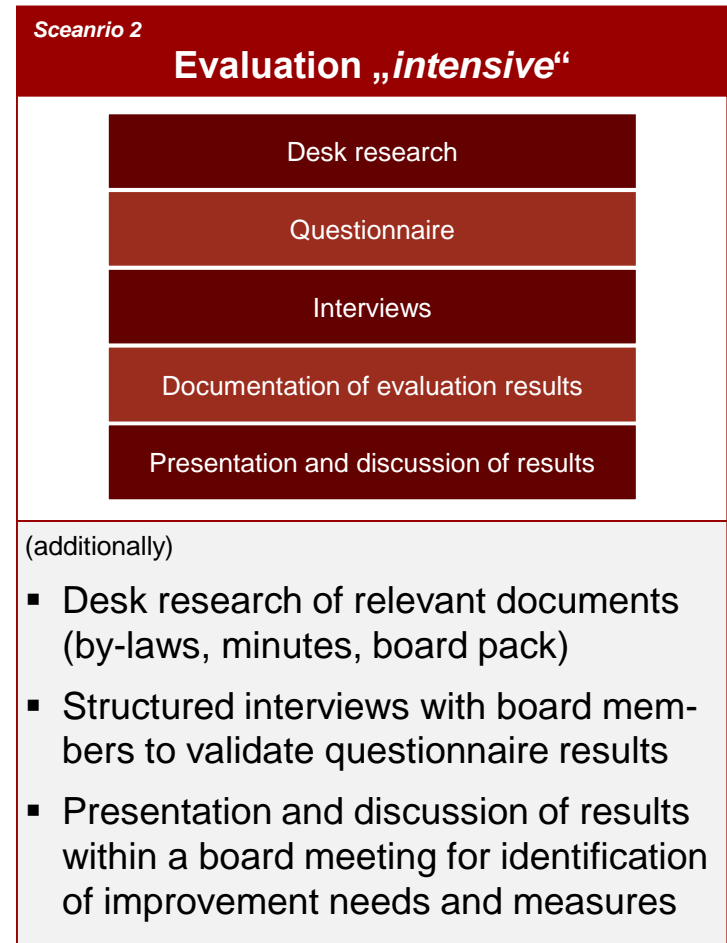
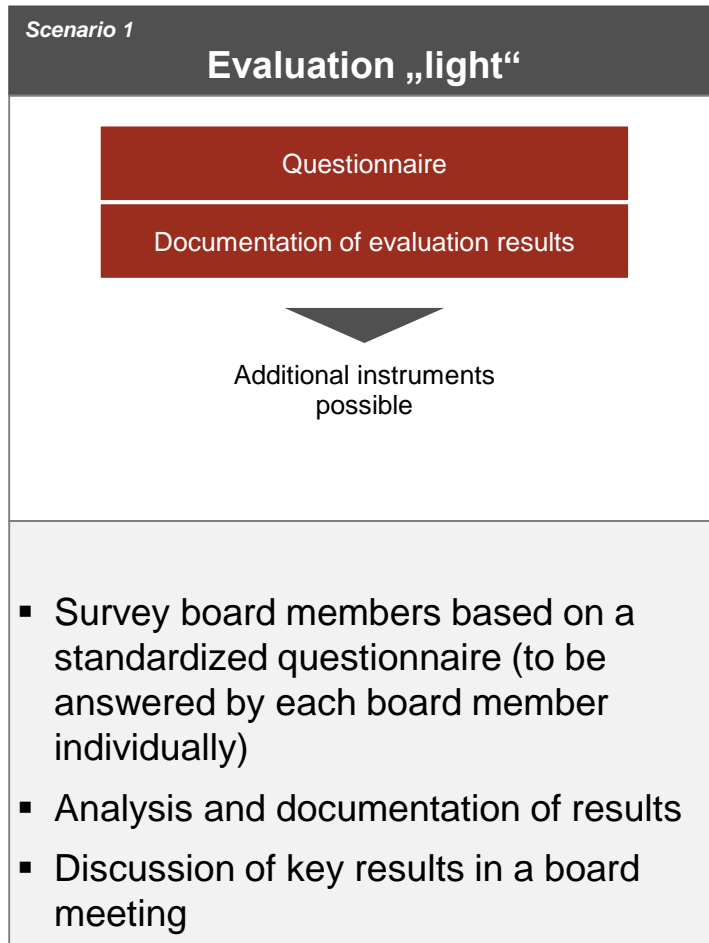
Performing a structured evaluation requires detailing the approach in four dimensions



▶ **Based on a strategic evaluation approach, frequency, level and methods of evaluation should vary each year - adopt to specific board requirements**

diep-methodology - Modular approach

Our modular approach provides flexibility to reflect specific requirements of the board

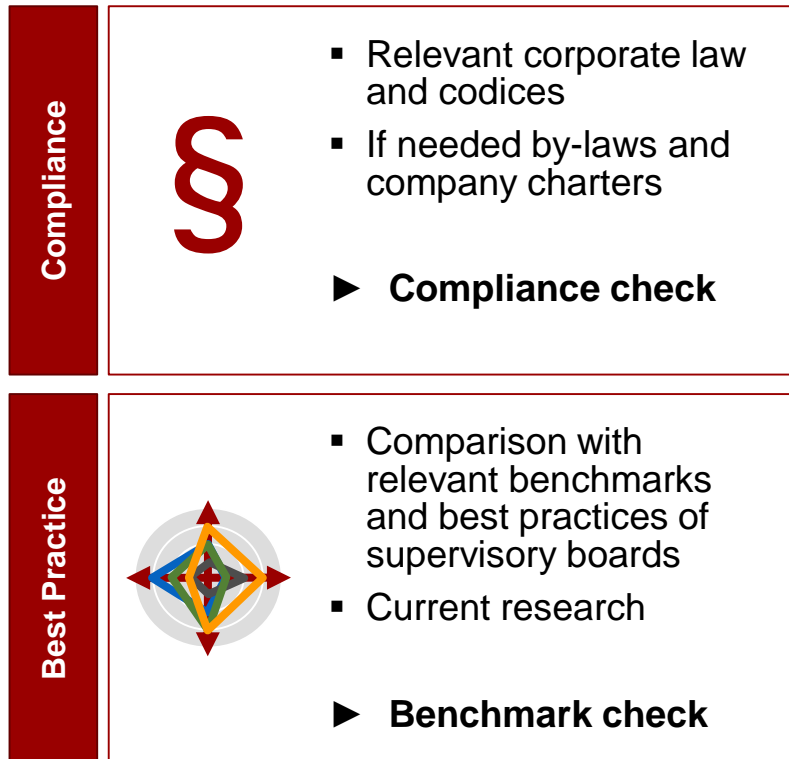


▶ **Customized approach to be determined between *diep* and chairman of the board**

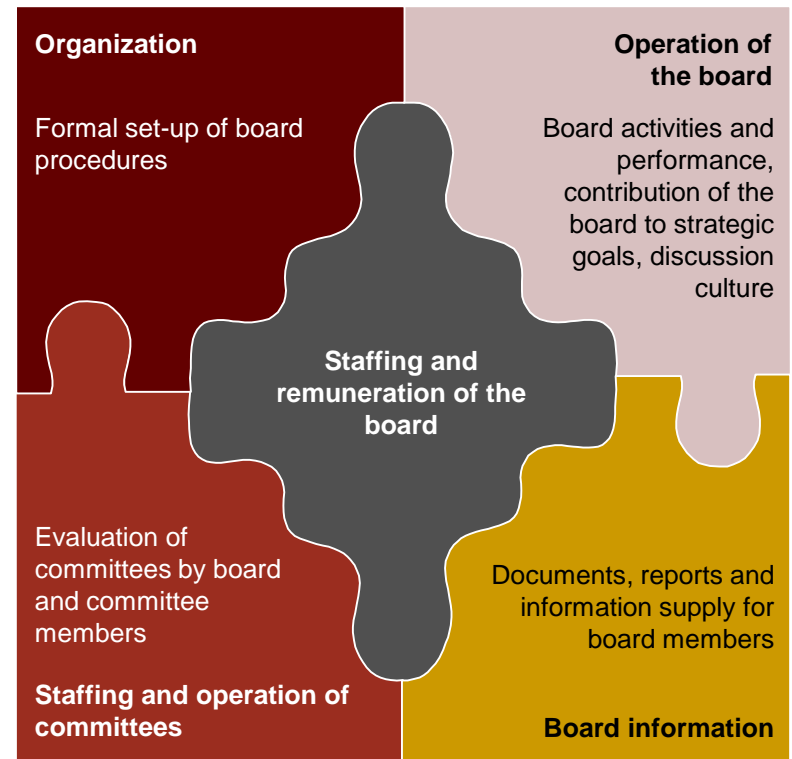
diep-methodology - Evaluation criteria and dimensions

Our methodology provides comparison with relevant compliance criteria as well as a comprehensive benchmark assessment

Evaluation criteria



Evaluation dimensions



▶ If requested, evaluation of the supervisory board is supplemented with an evaluation of the management board members

Board Performance Evaluation - Success factors

Based on our broad experience six key success factors have been identified

▪ **Independence** and **acceptance** of the external facilitator

▪ **Sophisticated** and **company specific** questionnaire

▪ **Modular** approach

▪ **Efficiency** and **proficiency** of the evaluation process

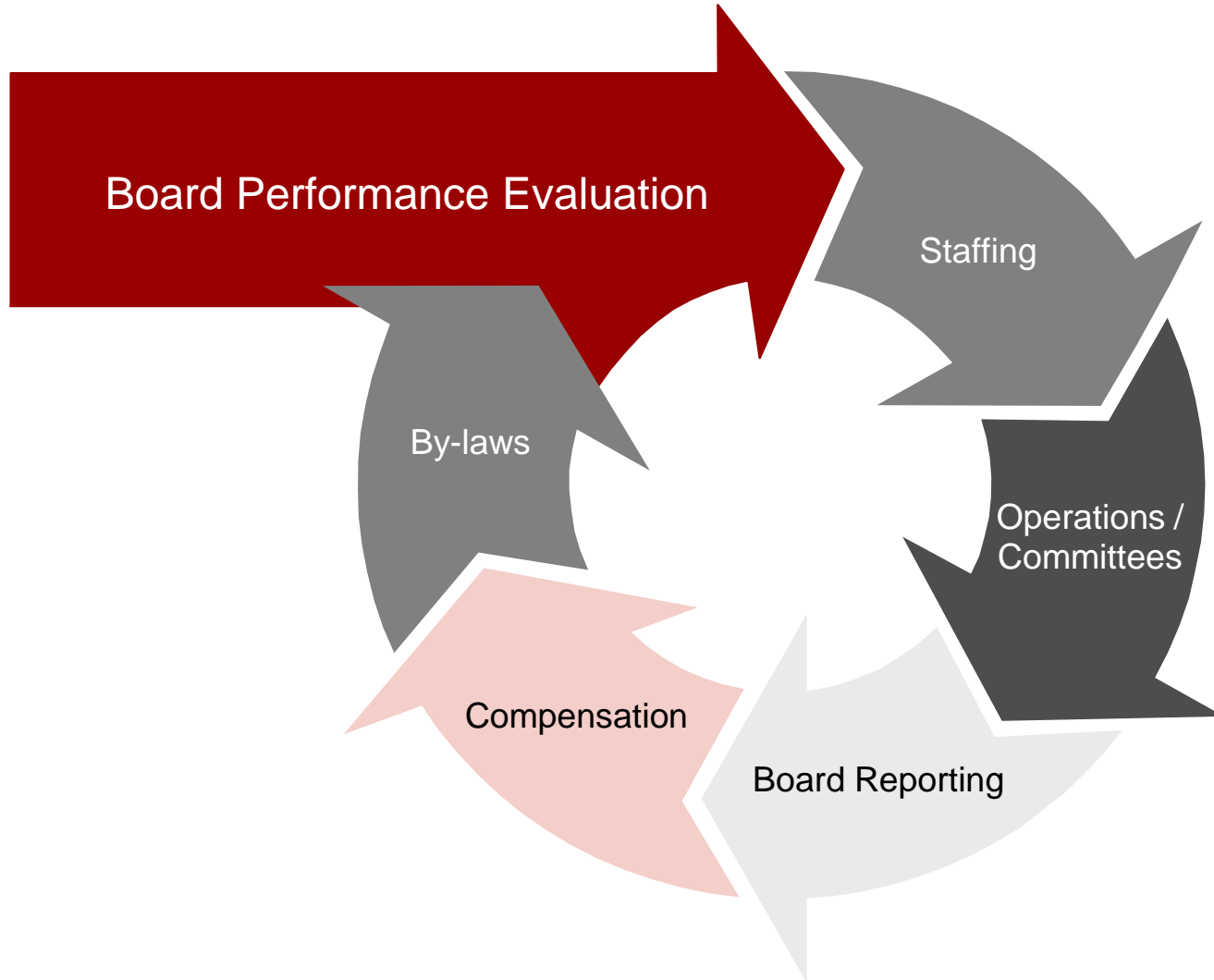
▪ Use of **Best Practices** and **Benchmarks**

▪ **Openness** of participants

SUCCESS

Board Performance Evaluation - Feedback cycle

Regular board evaluation provides a trigger for continuous improvement of board efficiency



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diep-methodology for board performance evaluation

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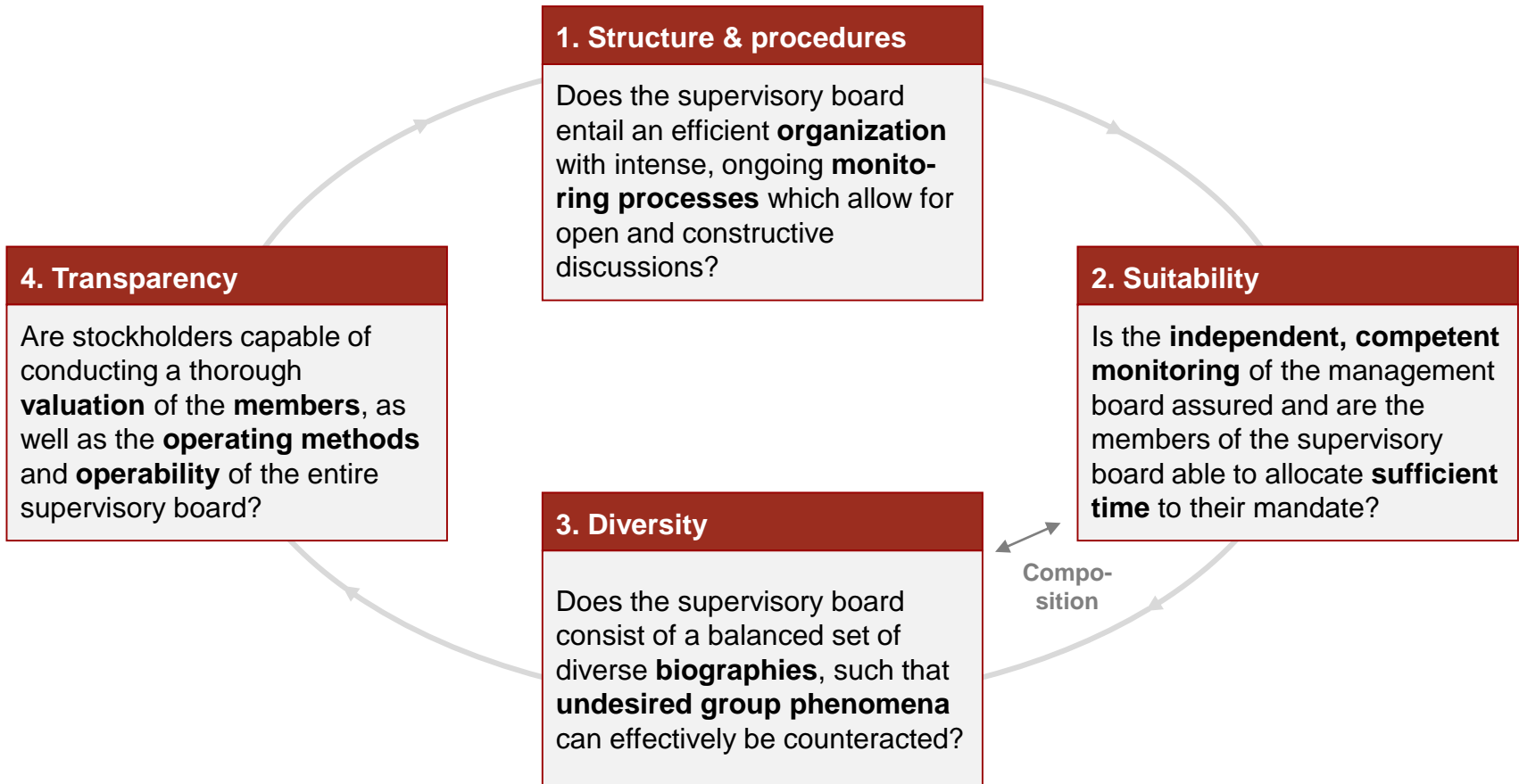
Board best practices

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About us

Research study “Aufsichtsrats-Score” – Best practices

Professional activities in supervisory boards demand answers to core questions in four dimensions - Best practices derived from research study “Aufsichtsrats-Score”¹



¹ Research study “Aufsichtsrats-Score” is conducted yearly based on publicly available information of DAX- und MDAX-companies

Best Practices – Structure and procedures

The operating method of the board and its committees should allow a continuous monitoring that is intense and independent from the management board

Meetings of the supervisory board

- The supervisory board holds at least six to eight meetings a year.
- The meetings regularly incorporate executive sessions without the management board.
- One meeting of the supervisory board serves the intensive discussion of the company's strategy. (if possible strategy workshop over one or multiple days)

Committees

- The supervisory board features an audit and a nomination committee.
- Depending on the size, as well as the complexity and riskiness of the underlying business, additional committees exist (e.g. technology, strategy, compliance/risk).
- If necessary, the supervisory board sets up ad-hoc committees to temporarily accompany specific topics.
- The committees usually meet three to four times a year.
- The chairman of the supervisory board is not also the chairman of the audit committee.
- The chairman of the supervisory board is not also the chairman of all the other committees.

Best Practices – Composition

The supervisory board's composition should be competent, independent and diverse – further training and efficiency reviews assure the panel's functionality

Independence and availability of the supervisory board members

- The **Cooling-Off-Period** has been considered, when changing from management to supervisory board.
- The **chairman of the supervisory board** is not the former CEO.
- At least **75%** of the shareholder representatives are **independent**.
- The supervisory board's members have **sufficient time** to execute their mandate (e.g. less than five mandates, chairman is not an active member of a management board).

Diversity

- The **quota of females** in the supervisory board amounts to at least **30%**.
- The **quota of foreign members** in the supervisory board amounts to at least **20%**.

Further training

- New members of the board receive support with the adaption of the mandate (**Onboarding**).
- The supervisory board assesses its operating methods and composition annually through a structured and intensive **efficiency review**.
- The company regularly carries out **training events** for the members of the supervisory board.

Best Practices – Transparency

A high level of transparency reduces asymmetric information and therefore might impact the risk assessment of investors

Transparency

- The company publishes a **list of requirements** for the supervisory board.
- **Nominations** for the supervisory board are **explained** by the company.
- A detailed **resume** is provided for new nominees.
- The company publishes the **procedure** and **results** of the **efficiency review**.
- The remuneration is shown for each member **individually**.
- The company shows the **age** of the supervisory board's members.
- The **participation in board and committee meetings** is published for each member individually.
- The **supervisory board's report** enables the addressee to comprehend the discussion and decision processes within the entire board, as well as its committees.

▶ **The best practices established provide the supervisory board with guidance in embellishing its activities – justified deviations should be explained and made transparent to the shareholders**

Content

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diep - Value added

diep is the only German consulting firm with a focus on board performance evaluation

diep Deutsches Institut
für Effizienzprüfung

- **Focused**

Competence center for all aspects concerning the efficiency audit of supervisory boards

- **Independent and objective**

Owner-managed with a focused set of services to eliminate the risk of conflict of interest

- **Scientifically sound**

Regular studies, publications and scientifically sound methods

- **Partnership**

Trusting and long-term companionship of businesses

„The evaluation process as well as the presentation in the board meeting were extremely compelling and really helpful for us.“

Eugen Münch

Founder and chairman of the board of
Rhön-Klinikum AG

diep - Value added

Board performance evaluations are facilitated by Peter Ruhwedel who has nearly 20 years of experience in the field of corporate governance research and consulting

Prof. Dr. Peter Ruhwedel

Managing Director

- **Founder and Managing Director** *diep* - Deutsches Institut für Effizienzprüfung GmbH
- **Professor** of Strategy & Organization, **Scientific Director** KCU Competence Center for Management & Corporate Governance, FOM University of applied sciences
- **Member of the supervisory board** of GBB-Rating Gesellschaft für Bonitätsbeurteilung mbH
- **Over ten years of experience as a management consultant** with leading international consulting firms, most recently as a partner of **Oliver Wyman**



„Professor Ruhwedel is distinguished by a high level of professionalism, expertise, commitment and integrity.“

Astrid Hamker, lic. oec. HSG
Shareholder Piepenbrock Group and board member

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