Corporate Governance and Executive Pay report 2020

The (non-)executive pay under (even more) scrutiny...

November 2020

Table of contents

When uncertainty becomes your partner for change

Facing the unexpected and preparing for unknown future challenges

Dear reader,

We truly hope you and your family are keeping safe during the pandemic.

Who could have predicted the human, social, economic and health challenges we would have to face today? When the pandemic started, certainty ended. All reasonable predictions about the short- and long-term growth of a company were suddenly gone. It goes without saying that the situation brings many challenges and tests our resilience (as individuals and as organizations). Despite the difficulties, one should focus on "looking for the silver lining". Challenges come with lessons and opportunities. By boosting creativity and reinventing ourselves, we can rethink our strategies, goals and objectives; develop our human capabilities; explore solutions outside our comfort zones; and implement adjustments in our lives and within our organizations. This can be translated, for example, into adjustments in a company's compensation framework, including (i) short-term decisions to safeguard the company's financial stability and protect its workforce and (ii) long-term decisions to ensure its sustainability. These decisions have often come with dilemmas, and they will continue to do so. Executives have to balance the interests of all the stakeholders with the common objective of the survival of the company.

In this report, we analyze the results of the 2020 annual general meetings (AGMs) of listed companies based in either Belgium or Luxembourg whose shares can be traded on a regulated market – the "Selected Index" – as well as the measures taken by the sampled companies regarding (non-)executive pay in reaction to COVID-19. As in the previous reports (published in 2019), we examine the executive remuneration of the Selected Index for the financial year 2019. The board's composition has been scrutinized: succession planning will be one of the next challenges to anticipate.

While the figures from the 2020 AGMs relating to performance – mainly pre-COVID-19 – still show an increase in total realised compensation (TRC), mainly driven by the increase in the number of long-term incentives (LTIs) achieved compared to 2019, we may reasonably expect that the financial year 2021 will be even more challenging and feature a further increase of remuneration-related items under review during the AGMs ("say on pay"). In these volatile times, we notice that, in the context of reviewing pay for performance (P4P) practices compared to previous years, disparities have gained importance. This suggests that several companies may need to review their executive pay practices during next year's annual shareholder meetings in view of the misalignment between total shareholder return (TSR) and TRC.

We hope you successfully navigate this challenging environment and trust that the difficulties you are facing will become opportunities.

Yours faithfully,

Christiaan Moeskops

Partner

PwC Belgium

Aniel Mahabier

CEO and Founder

CGLytics

Key findings

2020 results of the general meeting

- The number of remuneration-related items on the agenda significantly increased in 2020 compared to 2019
- Shareholder dissension regarding remuneration items is comparable to 2019 for Belgian listed companies
- On the other hand, we observed a significant increase of dissension regarding remuneration items among board members of listed Luxembourg companies
- The shareholders' disagreement (i.e. > 10% against) mainly concerns the approval (which is binding in Belgium and, in principle, advisory in Luxembourg) of the remuneration policy and the remuneration report in accordance with the revised Shareholder Rights Directive (SRD II)

(Non-)executive compensation

- The proportion of LTIs in the total remuneration package increased compared to previous years (including for CEOs)
- Financial key performance indicators (KPIs) remain dominant for both short-term incentives (STIs) and LTIs despite a call from investors to reinforce the use of non-financial KPIs to strengthen the long-term value creation and sustainability of the company
- Non-financial KPIs are more often integrated into STIs, while the aim of non-financial indicators is to reflect the long-term performance of the company
- The European Commission is working on a proposal for a Directive on sustainable corporate governance, aiming at improving the regulatory framework on company law and corporate governance in the EU; better aligning the interest of companies, their shareholders, managers, stakeholders and society; strengthening the focus on long-term sustainable value creation rather than short-term benefits; and helping companies to better manage sustainability-related matters (regarding social and human rights, climate change, environment, etc.) in their own operations and value chains
- The CGLytics P4P analysis revealed a peak in the TSR in 2019 – after the drop observed in 2018 – with an increase in CEO TRC; the TRC for 2019 (mainly pre-COVID-19), after decreasing for years, seems to again have reached 2015 levels

COVID-19 (non-)executive pay adjustments

- CEOs, chairpersons and the boards of certain companies agreed on a pay cut – ranging from 8% to 50% – for a limited period of time or, in certain cases, for the whole of 2020
- Solidarity programmes to support employees strongly affected by COVID-19 were established and funded by several Selected Index companies
- One Selected Index company decided to cancel the pay-out made on STIs to its CEO
- Most companies decided that no attendance fee would be paid for board meetings concerning COVID-19
- Financial and remuneration measures taken in the light of COVID-19 can create a snowball effect on motivation and retention which – we believe – can be managed by effective and tailored communications, applying fairness principles, and making use of non-financial rewards when possible and appropriate

Diversity in the boardroom

- Board diversity in terms of skills, experience, knowledge, gender, age, ethnicity, etc. should remain a priority
- The data from the Selected Index revealed that almost half of the sample had boards with an average age of 60 or more; board succession planning will be crucial to ensure continuity and a smooth transition to the next generation

Survey information and definitions

This survey includes data from companies that are based in either Belgium or Luxembourg and whose shares can be traded on a regulated market. The sample (the Selected Index) comprises companies listed on the BEL20, BEL Mid and/or LuxX indices, based on the composition of these indices as of August 2020. The Selected Index also comprises some companies from other indices and companies that are no longer listed (or have changed indices) but still publicly disclose their information in the same way as listed companies.

Company name	Location
Ackermans & van Haaren NV	Belgium
Ageas SA/NV	Belgium
Anheuser-Busch InBev SA/NV	Belgium
Aperam SA	Belgium
argenx SE	Belgium
Barco	Belgium
Befimmo SA	Belgium
BNP Paribas Fortis SA/NV	Belgium
bpost SA/NV	Belgium
Cofinimmo SA	Belgium
D'Ieteren SA	Belgium
Dexia SA	Belgium
Elia System Operator SA	Belgium
Etn Fr. Colruyt NV	Belgium
Fagron NV	Belgium
Galapagos NV	Belgium
Groupe Bruxelles Lambert SA	Belgium
KBC Group NV	Belgium
NV Bekaert SA	Belgium
Ontex Group NV	Belgium
Orange Belgium SA	Belgium
Proximus	Belgium
Sofina Société Anonyme	Belgium
Solvay SA	Belgium
Telenet Group Holding NV	Belgium
UCB SA	Belgium
Umicore SA	Belgium
WABCO Holdings Inc.	Belgium
Warehouses De Pauw SCA	Belgium

Company name	Location
Altisource Portfolio Solutions SA	Luxembourg
Aperam SA	Luxembourg
ArcelorMittal	Luxembourg
Ardagh Group SA	Luxembourg
Aroundtown SA	Luxembourg
B&M European Value Retail SA	Luxembourg
B&S Group SA	Luxembourg
Brederode SA	Luxembourg
eDreams ODIGEO SA	Luxembourg
Eurofins Scientific	Luxembourg
Grand City Properties SA	Luxembourg
Intelsat SA	Luxembourg
IWG plc	Luxembourg
Luxempart SA	Luxembourg
Reinet Investments SCA	Luxembourg
RTL Group SA	Luxembourg
SAF-Holland SA	Luxembourg
SES SA	Luxembourg
Socfinaf SA	Luxembourg
Socfinasia SA	Luxembourg
Tenaris SA	Luxembourg

At the time of the data analysis, some companies were yet to release their 2019 remuneration reports and their 2020 AGM results. This concerns the following companies: Etn Fr. Colruyt NV, Reinet Investments SCA, eDreams ODIGEO SA and B&M European Value Retail SA.

The data included in this survey are publicly disclosed in the annual report and remuneration report of the Selected Index. The remuneration information for any financial year is sourced from the annual report and remuneration report of that year. In this respect, when referring to the 2019 financial year, reference is made to companies ending their financial year on a date after 31 March 2019 or at the latest on 31 March 2020. The voting information relates to the AGMs that took place in 2020.

The following definitions are consistently applied in this publication.

Base salary: All fixed salaries, excluding benefits and pension benefits.

Short-term incentive (STI): All cash and equity-based payments accrued by an individual over a period shorter than 12 months. A distinction is made between granted STI (i.e. awarded in the financial year under consideration) and realised STI (paid out in the financial year under consideration, if it concerns a cash settlement or was vested/exercised during the financial year for equity-based remuneration).

Long-term incentive (LTI): All cash and equity-based payments accrued by an individual over a period longer than 12 months. A distinction is made between granted LTI (i.e. awarded in the financial year under consideration) and realised LTI (paid out in the financial year under consideration, if it concerns a cash settlement or was vested/exercised during the financial year for equity-based remuneration).

Total realised compensation (TRC): The sum of the base salary, realised STI, realised LTI, pension benefits and other compensation components.

The realised compensation is calculated based on performance indicators that have been met during the period. Most companies disclose the performance period and vesting period, and the percentage that will be paid in the following year. For example, shares that were vested on 31 March 2020, but where the performance period ended on 31 December 2019, are included in the realised compensation for the 2019 financial year. When the company does not disclose the average share price over the last quarter, the company's year-end share price is used to calculate the value of the vested multi-year share packages.

Total shareholder return (TSR): The total return of a stock to an investor. It combines annual changes in share price (adjusted share price) and dividends paid, and is expressed as an annualized percentage.

Lower quartile (25^{th} percentile): 75% of the population earn more than this level, and 25% earn less.

Median (50^{th} percentile): 50% of the population earn more that this level, and 50% earn less.

Upper quartile (75^{th} percentile): 25% of the population earn more than this, and 75% earn less.

In this publication, the statutory positions of Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Other (Non-)Executive Director (ONED and OED) are analysed. Only the key findings are published. Other potentially interesting indicators on executive and non-executive remuneration can be made available via your contact at PwC.

Analysis of the 2020 AGM results

Remuneration-related items

From a sample of 49 companies (the Selected Index), only a few companies had not yet disclosed their AGM's results on their website at the time of writing.

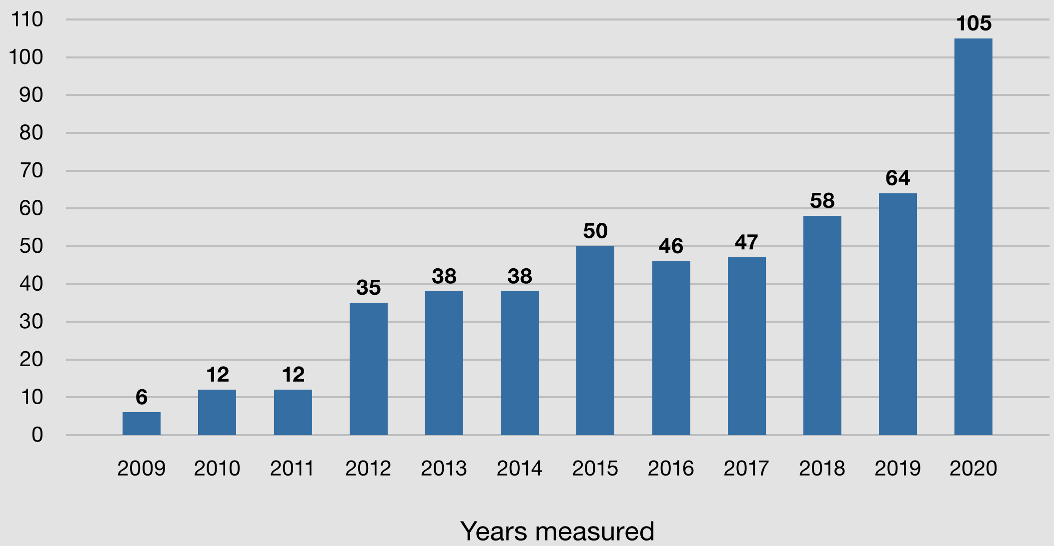
In Belgium, AGMs should be held – in principle as a physical meeting – within 6 months of the closing of the financial year, at the place, date and time indicated in the company's articles of association. For companies closing the financial year on 31 December, most AGMs take place between April and June. The organisation of these AGMs has been disrupted by the measures taken to fight the spread of COVID-19, which have included the prohibition of public gatherings. Royal Decree N°4 of 9 April 2020, which contained various provisions on co-ownership and company and association law in the context of the fight against the COVID-19 pandemic, allowed companies to hold non-physical shareholders' meetings through remote participation – even without the statutory permission required under normal circumstances – or the use of proxies. The Royal Decree also allows companies to postpone the general shareholders' meeting for a maximum of ten weeks after the legally permitted date. For a company closing its financial year on 31 December 2019, the AGM should in principle have been held by 30 June 2020. Thanks to the Royal Decree, the AGM could be postponed until 8 September 2020. The approved annual accounts were, therefore, to be filed with the National Bank of Belgium no later than 8 October 2020.[1]

AGM results

Continuing trend: increasing numbers of remuneration items on the agenda

The number of resolutions related to remuneration items has significantly increased over the years, in particular since 2018, as shown by the graph below. We observed a sharp increase in the number of remuneration items on the agenda in 2020 (around 64 in 2019 vs 105 in 2020). This significant increase can be explained by the introduction of the revised SRD II, which reinforces transparency and disclosure requirements regarding directors' and executives' remuneration in listed companies, and introduces the right of shareholders to express their views on directors' pay (i.e. the "say on pay" principle). Provisions of SRD II with respect to the remuneration report and the remuneration policy apply to the remuneration report / remuneration policy that relates to the first financial year starting from 30 June 2019.

Number of remuneration-related items



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1 https://press.pwc.be/pwc--pwc-legal-highlight-four-dilemmas-confronting-boards-of-directors-due-to-covid-19

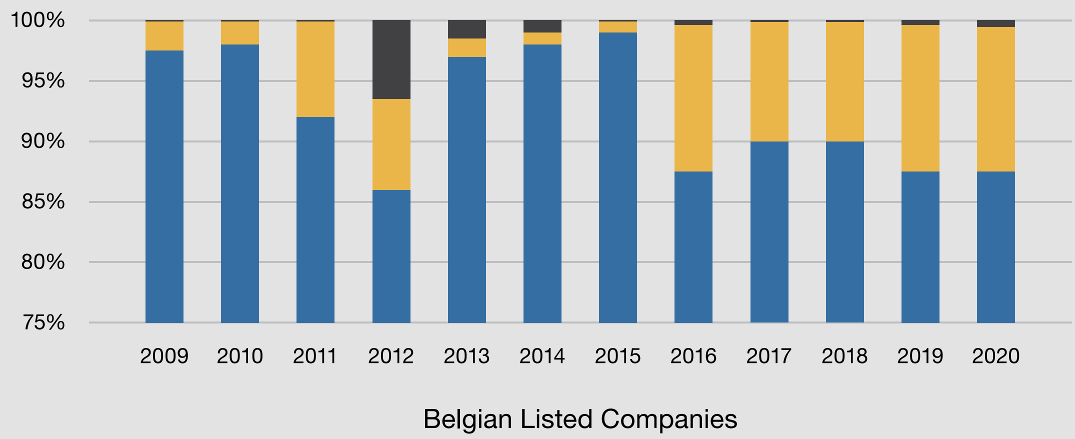
For Belgian listed companies closing their financial year on 31 December, the first binding vote on the remuneration policy will take place at the 2021 AGM. In anticipation of this, whether remuneration policies are compliant with the new Belgian Code on Companies and Associations, and with the measures adopted in the 2020 Belgian Code on Corporate Governance, needs to be assessed. In the light of COVID-19, we predict that the principles of SRD II will gain importance, particularly those related to remuneration and transparency, especially if discretion would be applied in remuneration decisions.

Belgian listed companies will also be required to enlarge the content of their remuneration report in order to comply with the SRD II requirements, specifically on the disclosure of compensation for all directors on an individual basis and the comparison of the evolution of directors' pay changes with that of employees' remuneration on a full-time equivalent basis over at least the previous five financial years (i.e. a kind of "pay equity assessment").

Shareholders' disagreement (2020)

The evolution of the proportion of votes for versus against and abstentions on remuneration items at AGMs is represented in the following two graphs for listed companies from the Selected Index in Belgium and Luxembourg. Based on the sample surveyed, the data reveals that, since 2016, Belgian companies have been more affected by shareholder disagreements on remuneration-related items than those in Luxembourg. The percentage of votes against was between 10% and 12% for Belgian listed companies between 2016 and 2020, remaining relatively stable despite the increase in the number of remuneration items submitted to a vote. For listed companies in Luxembourg, the percentage of votes against varied between 1% and 3% between 2016 and 2019, however they increased to 13% in 2020. This observation may be explained by the fact that, before 2020, two listed companies from Luxembourg in the sample had no remuneration item on their AGM's agenda.

Evolution of the proportion of for/against votes and abstentions on remuneration items (Belgium)



Evolution of the proportion of for/against votes and abstentions on remuneration items (Luxembourg)

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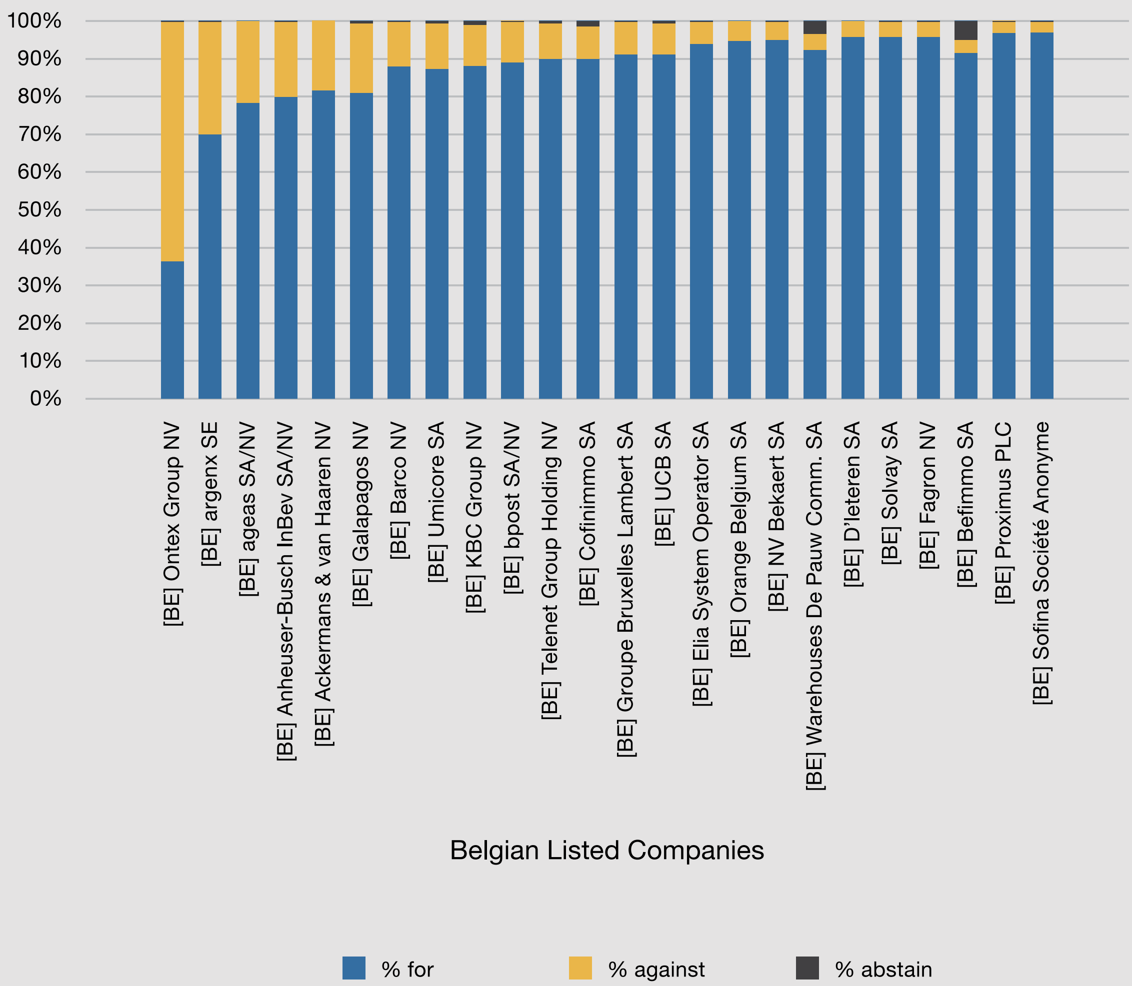
The following graph shows the proportion of votes for or against as well as abstentions on remuneration items during the 2020 AGMs of Belgian listed companies. The shareholders of Ontex Group NV rejected the approval of the remuneration report, with 63.7% votes against. Shareholders of other Belgian listed companies (e.g. argenx SE, Anheuser-Busch InBev SA/NV, Ackermans & van Haaren NV, Galapagos NV) approved the adoption of the remuneration policy, but with a significant number of votes against (e.g. about 30% voted against argenx's remuneration policy). Their 2019 remuneration reports have been approved, with similar results. This means that shareholders and boards of directors will have to enhance their efforts to continue the dialogue on the remuneration principles applied within their companies.

2020 – Proportion of for/against votes and abstentions on remuneration items (Belgium)



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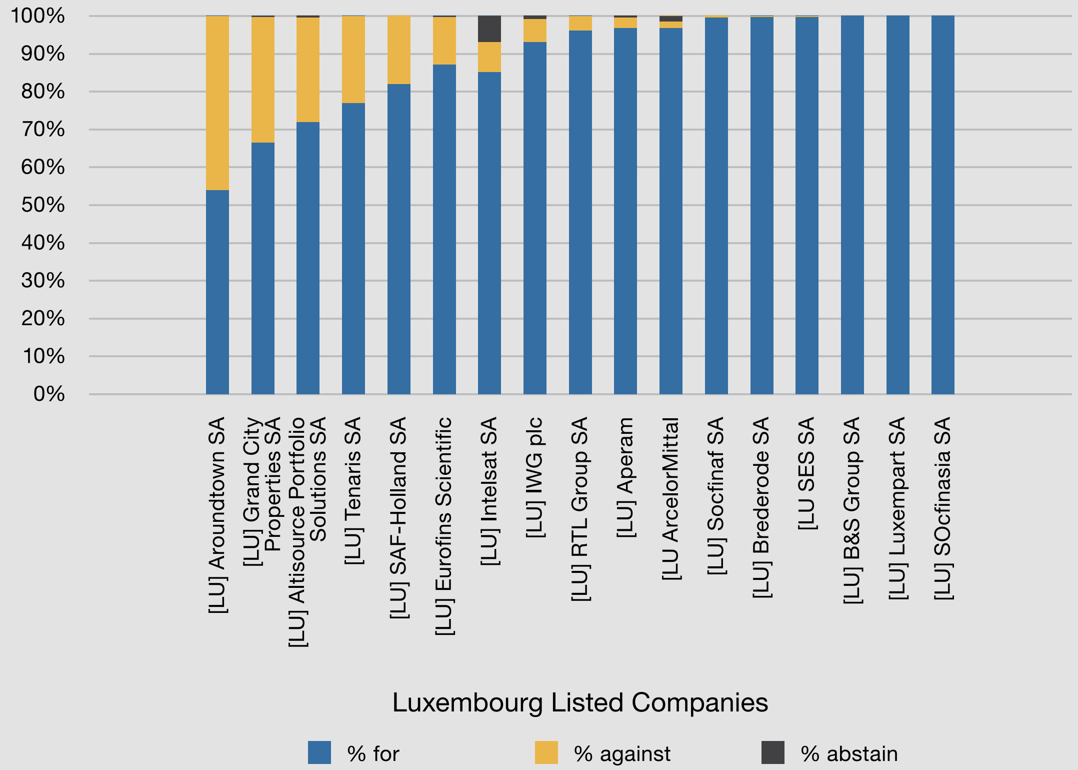
The following graph shows the proportion of votes for or against as well as the abstentions on remuneration items during the 2020 AGMs of listed companies from Luxembourg. Similar to what we observed for Belgian listed companies, the adoption of remuneration policies and remuneration reports has been disputed by shareholders.

2020 – Proportion of for/against votes and abstentions on remuneration items (Luxembourg)



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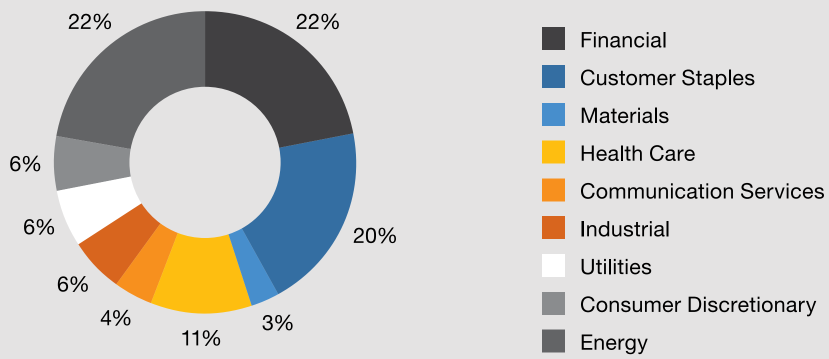
The graph below shows the allocation of total votes against remuneration-related items in proportion to the total votes on remuneration items at the 2020 AGMs by sector. The financial sector includes the following industries: diversified financials, insurance, banks, real estate, and capital markets. The energy sector is only represented by Tenaris SA, which explains the proportion of 22%. Companies active in the consumer staples sector are Anheuser-Busch InBev SA/NV, Etn Fr. Colruyt NV, Ontex Group NV, Socfinaf SA and Socfinasia SA.

Proportion of total votes against on remuneration items per sector



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Executive remuneration

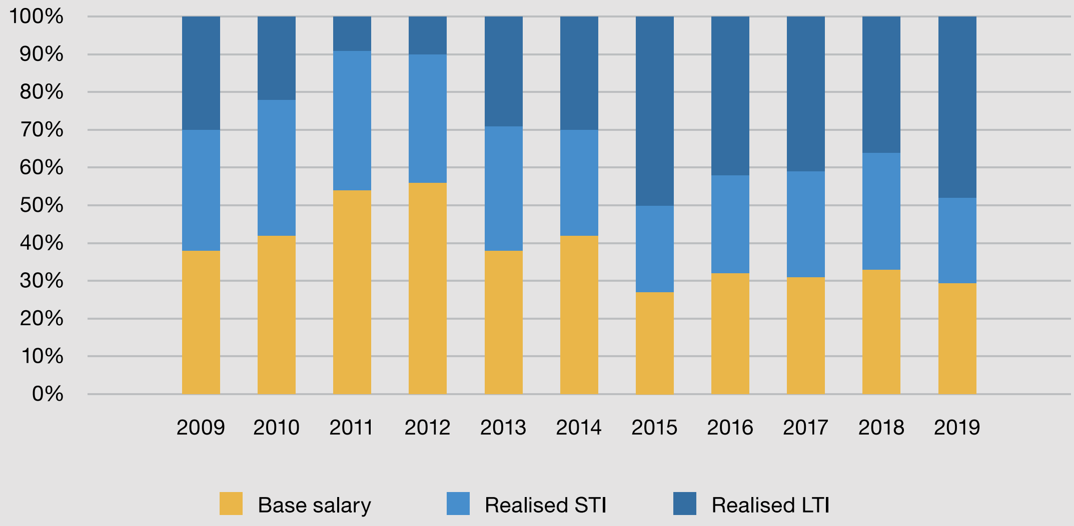
Compensation design

The declining relative importance of short-term incentives in recent years

The focus on long-term sustainable value creation has been gaining more and more importance over recent years. In the following graph, one may observe that the proportion of STIs declined after 2014, with a supplementary drop in 2019 where the realised STIs only represent 22% of the total remuneration (being the sum of the base salary, realised STI and realised LTI in this case) while the realised LTIs reach 48%.

In Belgium, the applicable restrictions on variable pay set out in the Belgian Code on Companies and Associations were already more complete than the ones established by the SRD II. Therefore, the increase of LTIs observed in 2019 reflects an existing tendency, which has been reinforced by the 2020 Belgian Code on Corporate Governance (which provides a cap on STIs granted to executive management). No further guidelines were released regarding the framework of such a cap in the Belgian Code on Corporate Governance. However, in the banking sector, the Belgian Banking Act of 25 April 2014 explicitly states that variable pay cannot exceed the following limits: (i) 50% of the fixed remuneration; or (ii) EUR 50 000. The Solvency II Law provides for similar restrictions on companies operating in the insurance sector. The philosophy behind these restrictions is that the share of the fixed or guaranteed component in the overall remuneration package should be enough to avoid (Identified) staff being too dependent on the variable component, and should enable the company to operate an entirely flexible bonus policy, including the option of not paying out any variable component at all.

Evolution of base salary, STI and LTI (2009–2019) – all sectors*



* All companies of the Selected Index are included – apart from Aperam SA, Intelsat SA, Luxempart SA, Reinet Investments SCA, RTL Group SA, SES SA, Socfinaf SA, Socfinasia SA, Ardagh Group SA, B&S Group SA, as these companies did not disclose compensation data for the CEO position.

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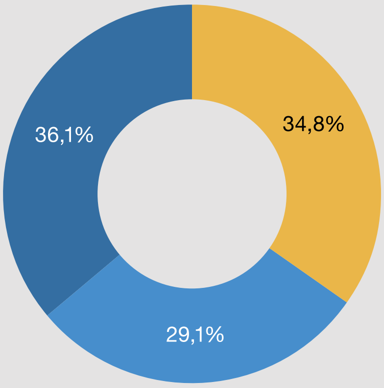
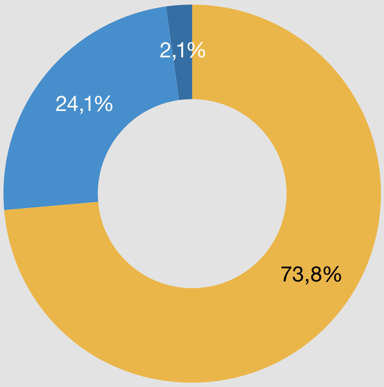
Compared to last year (please refer to the report published in December 2019, "Corporate governance and executive pay – Reflection on the 2019 proxy season and legislative insights"), we notice that both in the overall sample and the bank and insurance sample, the relative importance of the LTI is gaining weight compared to the overall package. The relative importance of the realised STI in the overall sample is decreasing (proportionally) more than in the bank and insurance sector. Compared to the previous report, the STI proportion is now similar in both samples, while the relative importance of fixed pay in the banking and insurance sector remains more than double that of the overall sample due to regulatory requirements.

Proportion of base salary, STI and LTI (2018) – all sectors of the Selected Index



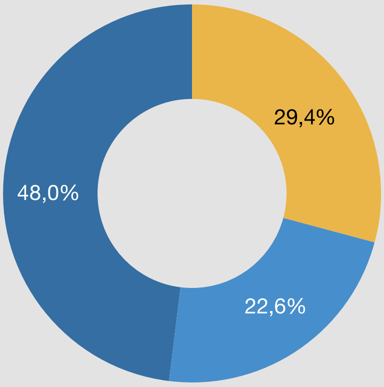
2018 – Banks & insurance companies of the Selected Index*



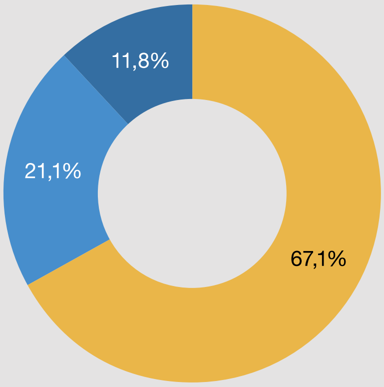
Base salary | Realised STI | Realised LTI

* Companies included in the banks & insurance graph: ageas SA/NV, Dexia, KBC Group NV and BNP Paribas Fortis SA/NV

Proportion of base salary, realised STI and realised LTI (2019) – all sectors**



Proportions of base salary, realised STI and realised LTI (2019) – Bank & insurance***



Base salary | Realised STI | Realised LTI

** All companies of the Selected Index are included – apart from Aperam SA, Intelsat SA, Luxempart SA, Reinet Investments SCA, RTL Group SA, SES SA, Socfinaf SA, Socfinasia SA, Ardagh Group SA, B&S Group SA, as these companies did not disclose compensation data for the CEO position.

*** Companies included in the bank and insurance graph are Ageas SA/NV, Dexia SA, KBC Group NV, BNP Paribas Fortis SA/NV.

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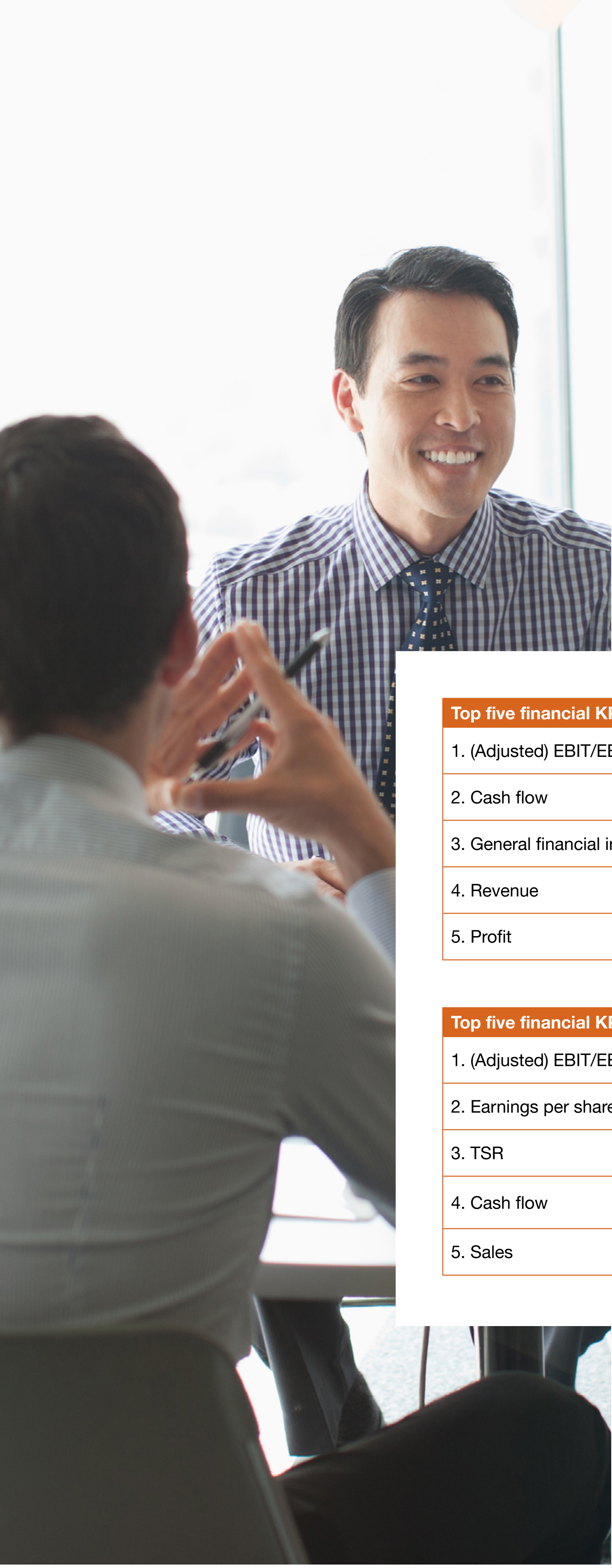


Incentive plans

STIs and LTIs

The average vesting period for share plans within the Selected Index is 3 years (i.e. no change compared to last year).

KPIs

As observed in our previous report, the financial performance indicators are still dominating factors in terms of the evaluation of a company's performance, with a ratio of financial KPIs of 73% (STI) and 84% (LTI) to 27% (STI) and 16% (LTI) of non-financial KPIs. Non-financial KPIs are more frequently used for executive remuneration STIs rather than LTIs despite the fact that non-financial KPIs typically reflect long-term performance, especially when linked to sustainability.

Top five financial KPIs for STIs	Top five non-financial KPIs for STIs
1. (Adjusted) EBIT/EBITDA[2]	1. Operational objectives
2. Cash flow	2. Customer satisfaction
3. General financial indicators	3. Environment
4. Revenue	4. Strategic objectives
5. Profit	5. Employee satisfaction

Top five financial KPIs for LTIs	Top five non-financial KPIs for LTIs
1. (Adjusted) EBIT/EBITDA	1. Employee satisfaction
2. Earnings per share (EPS)	2. Individual performance
3. TSR	3. Environment
4. Cash flow	4. Corporate responsibility and governance
5. Sales	5. Customer satisfaction

Though the table above shows the financial and non-financial KPIs for STIs and LTIs most commonly used by the Selected Index, the weighting of these KPIs based on the companies' remuneration policies may differ significantly.

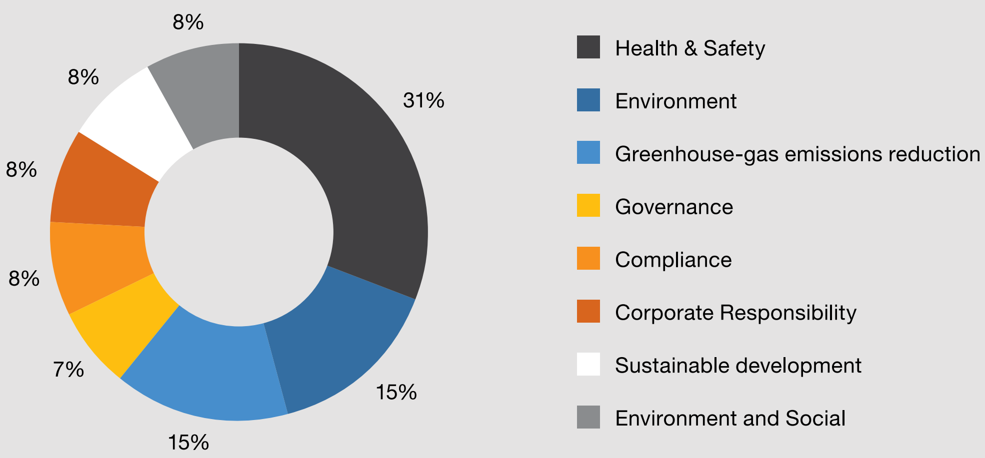
2 This category includes: REBITDA, EBIT, EBITDA (i.e. margin, ratio, growth, recurring, adjusted figures etc.).

According to the Non-Financial Reporting Directive, companies should disclose KPIs that are relevant to their particular business. The "Guidelines on non-financial reporting: Supplement on reporting climate-related information" released by the European Commission in 2019 suggest that recommended key indicators should be disclosed – such as greenhouse-gas (GHG) emissions, energy, physical climate risks, products and services, green finance, sector-specific indicators relevant to a company's industry, indicators on related environmental issues (e.g. water, soil productivity or biodiversity, forest degradation or deforestation), or indicators on human capital and social issues (e.g. the training and recruitment of employees). A company's climate-related policies should describe whether and how the company's remuneration policy takes account of climate-related performances, and should appraise performance against set targets.

When comparing different non-financial KPIs regarding corporate social responsibility (CSR), it is noticeable that health and safety indicators represent one-third of the most commonly used non-financial indicators. In 2020, the use of non-financial KPIs related to the environment or climate issues (e.g. GHG emissions reduction) has significantly increased; taken together they also represent one-third of the most commonly used CSR non-financial indicators.

Further developments in this area may be expected due to the impact of the COVID-19 crisis, but also following the study on directors' duties and sustainable corporate governance published by the European Commission (July 2020). In this context, Didier Reynders, Commissioner for Justice, said: "*I am committed to achieving a more sustainable corporate governance. By sustainable, we mean encouraging businesses to frame decisions in terms of environmental, social and human impact for the long-term, rather than focus on short-term gains.* ***This study, focusing on directors' duties, helps us see the root causes of 'short-termism' and identify possible EU-level solutions****. We see support for mandatory rules, encompassing both directors' duties and a corporate due diligence duty. Therefore, the Commission is launching work for an initiative on sustainable corporate governance. The aim is to enable companies to overcome short-term pressures, act in the best long-term interest of the company while being accountable for the sustainability of their companies' business conduct. This will be beneficial for the sustainability of the businesses as well as for reaching the UN Sustainable Development Goals and the goals of the Paris Agreement.*"[3] Among the issues identified in the data assessed by the study, the fact that current board remuneration structures and board expertise pose challenges for sustainability has been highlighted. The feedback period has just ended (on 8 October). The Commission currently plans to adopt the directive in the first quarter of 2021, after a public consultation.

Most common ESG/CSR non-financial indicators used in 2020



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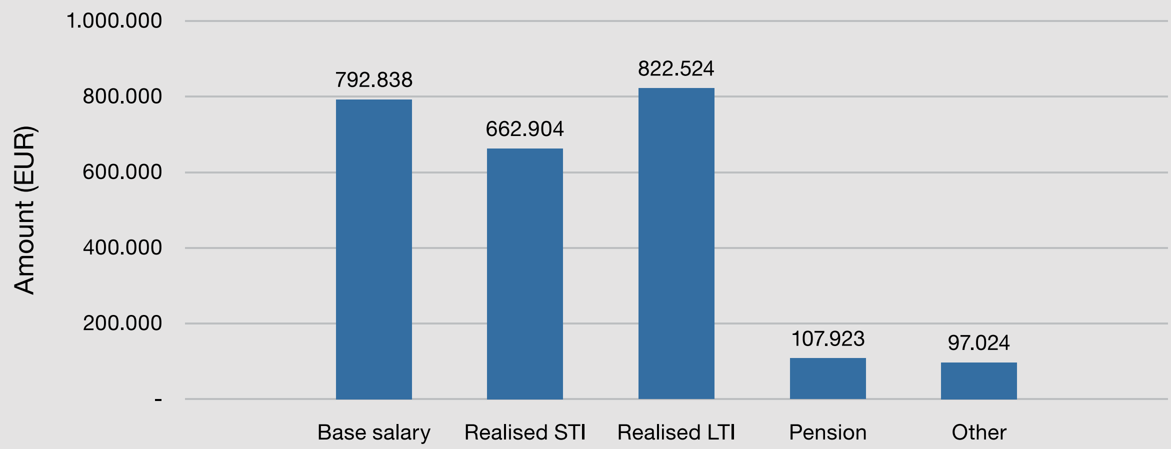
3 https://ec.europa.eu/commission/presscorner/detail/en/MEX_20_1436

CEO pay components

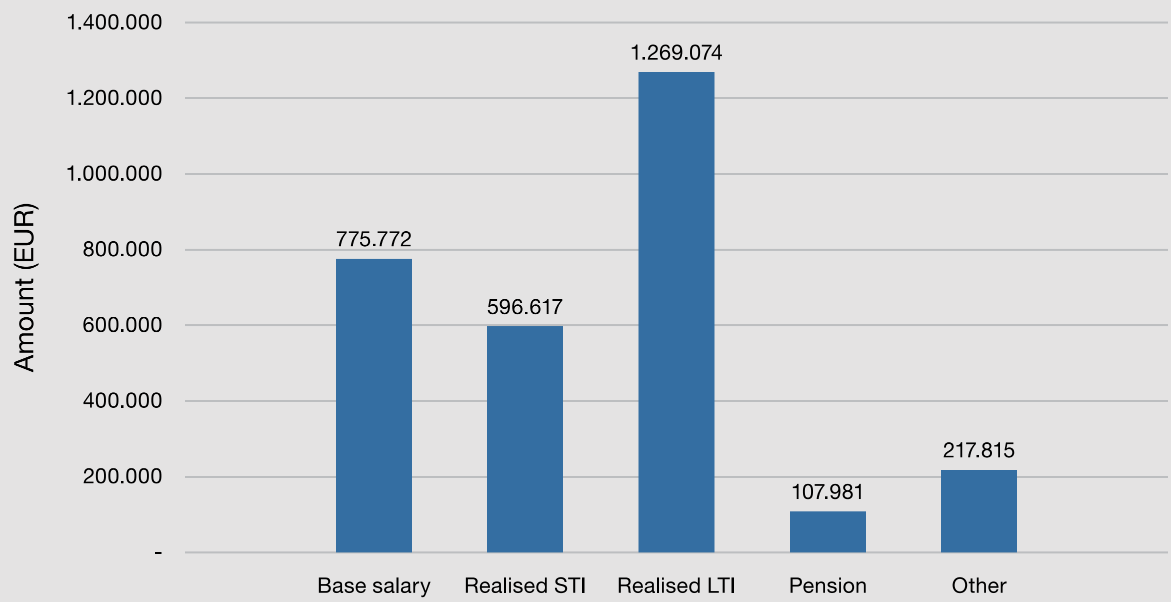
Most companies offer not only a base salary and variable remuneration but also a pension plan and other benefits (e.g. company car, mobile phone, health plan, etc.). The graph below shows the average amounts allocated to the different elements of CEO compensation for the Selected Index in 2019 compared to 2018.

While both the average base CEO pay (less+/- 2%) and the average pension contribution have remained approximately stable, we notice a significant increase in realised LTIs (+54%) as well as the importance of other remuneration components (these have more than doubled since 2018 and are now even more important than pensions).

Average CEO pay components for 2018



Average CEO pay components for 2019



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The following table provides an overview of the tendencies observed per quartile in 2019.

2019	Market Cap in EUR (xMln)	Employees in numbers	Revenue in EUR (xMln)	Asset base in EUR (xMln)	Net income in EUR (xMln)	TSR in %	CEO Granted pay in EUR	CEO Realised pay in EUR
25%	1.511	1.147	591	2.885	47	6%	803.282	790.460
50%	4.482	5.542	2.433	5.922	205	23%	1.737.231	1.654.681
75%	9.068	21.942	5.665	13.227	458	41%	5.490.096	4.227.340
90%	13.748	32.500	10.061	84.558	1.220	81%	6.550.043	5.629.017
Average	8.651	17.851	5.670	28.976	462	27%	3.396.354	2.967.259

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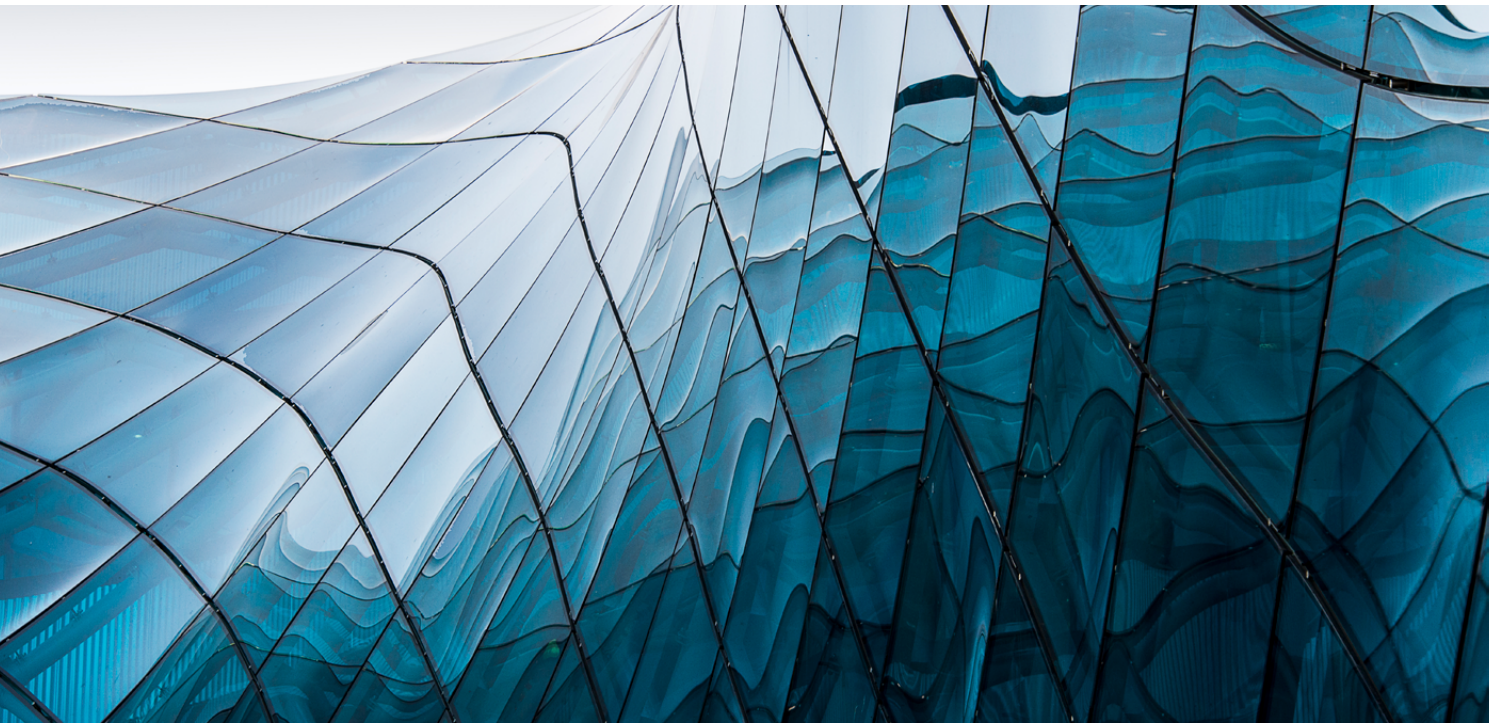
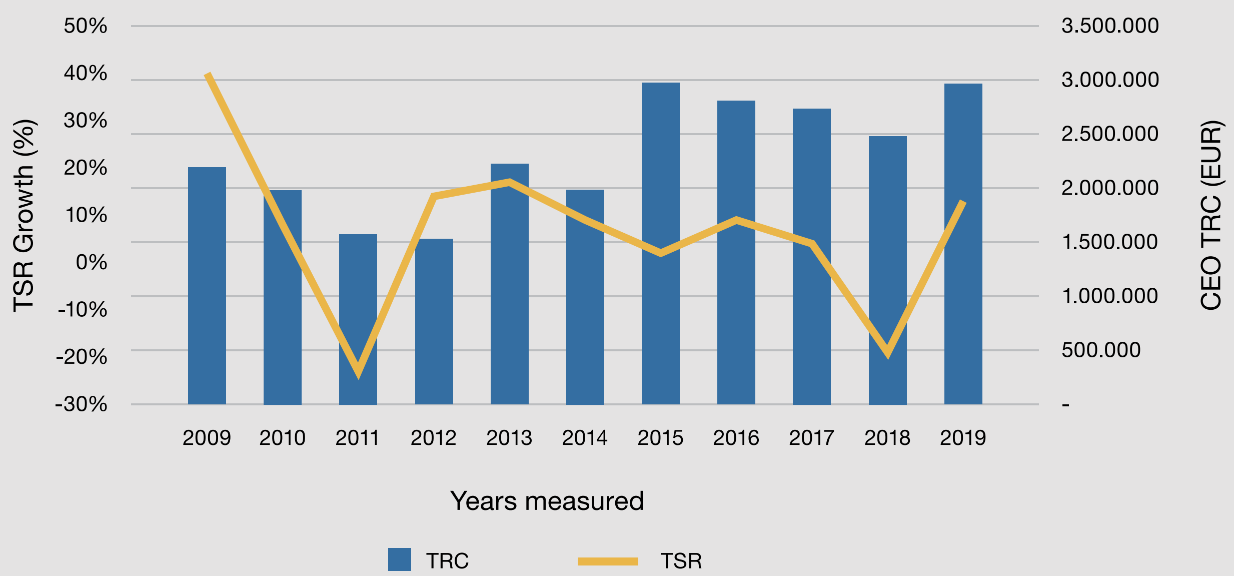
As with 2018, the table above seems to confirm that CEO pay is mainly driven by market cap and the size of the company, which often imply larger responsibilities and a higher level of complexity. The increase of the overall average realised package (compared to the previous year), is also reflected in the drivers that aren't counted as part of net income. More importantly, the TSR also increased significantly.



P4P

The graph below shows the evolution of total TSR compared to the TRC of CEOs from the Belgian companies of the Selected Index. In 2019, both the CEO TRC and the TSR showed a positive evolution, however the growth of TSR (+ 13% compared to - 19% in 2018) is evolving faster than the CEO TRC. Nevertheless, the TRC for 2019, after decreasing for years, seems again have reached 2015 levels.

TRC vs TSR: Absolute Growth



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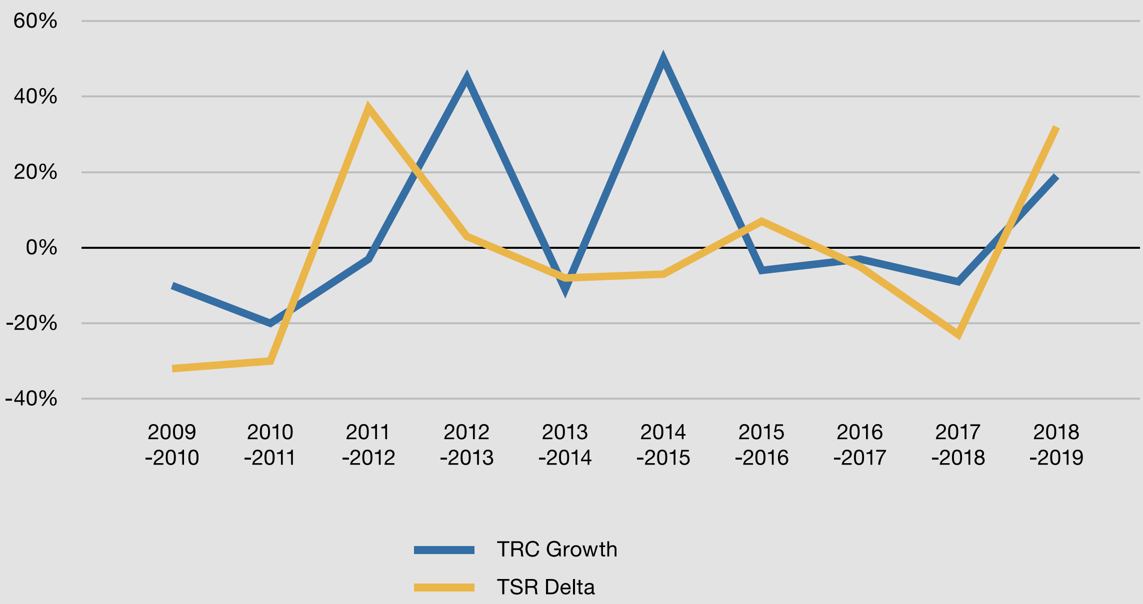
In terms of relative growth, the graph below shows the same tendency.

TRC vs TSR: Relative Growth



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The graphs do not incorporate the impact of COVID-19; we expect both the TRC and TSR to be negatively affected.

P4P alignment

The CGLytics' P4P analysis includes all the companies in the Selected Index except for: Aperam SA, Intelsat SA, Luxempart SA, Reinet Investments SCA, RTL Group SA, SES SA, Socfinaf SA, Socfinasia SA, Ardagh Group SA, B&S Group SA, Tenaris SA and Brederode SA, as they do not disclose compensation data for the CEO position.

P4P review: 2019

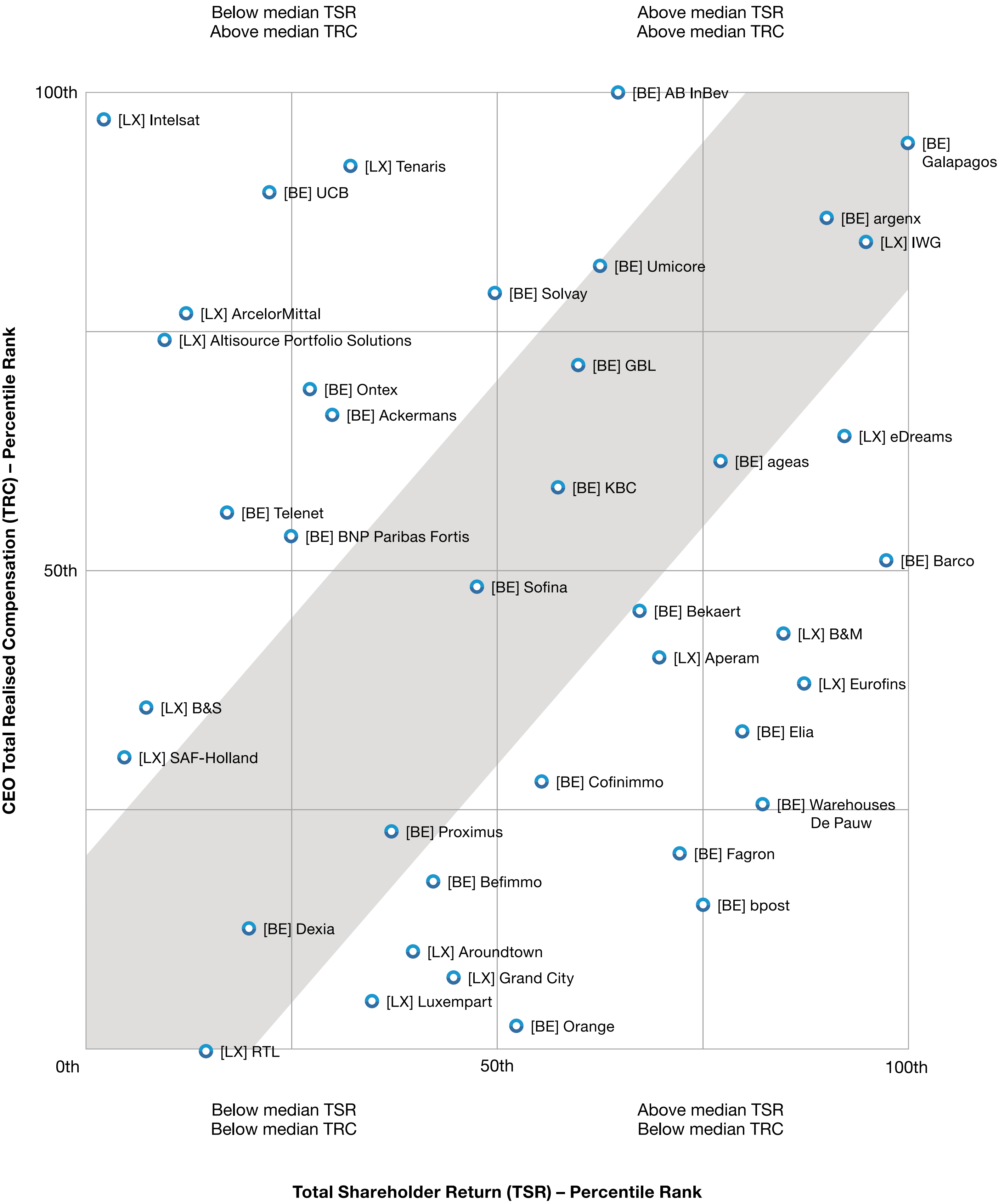
- 25% of companies display good P4P alignment
- 38% of companies are conservative in their pay practices
- 38% of companies display P4P misalignment

Compared to the P4P review of 2018, we notice that disparities have gained importance (i.e. both the conservative pay practices and the misalignment, which may suggest that several companies may need to review their executive pay practices).

P4P review: 2017-2019

- 40% of companies display good P4P alignment
- 30% of companies are conservative in their pay practices
- 30% of companies display P4P misalignment

CGLytics CEO Pay for Performance alignment: 2019



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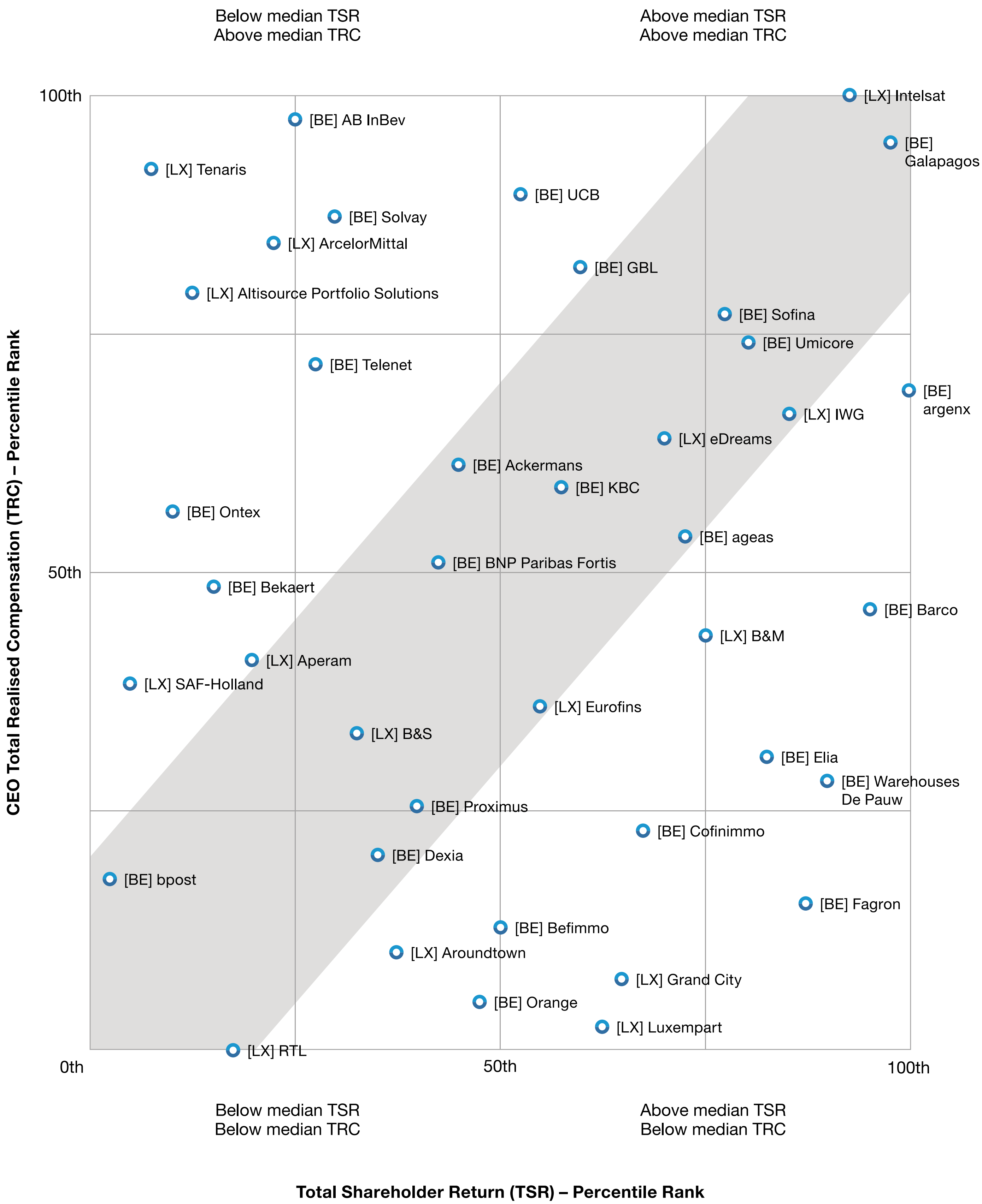
CGLytics CEO Pay for Performance alignment: 3-year basis (2017–2019)



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Remuneration reactions (COVID-19)

HR dilemma and related pay decisions

The COVID-19 pandemic has presented unprecedented challenges to the health of individuals, and subsequently jobs, businesses and the entire economy. While governments contend with a public health and economic crisis, companies have to assess the impact on business.

Some organizations have seen a dramatic decline in demand for their products and services (e.g. tourism, entertainment and retail (excluding supermarkets)), and have had to aggressively manage costs and mitigate impacts on liquidity. As a result, Belgian publicly quoted companies active in different industries announced adjustments to FY20 remuneration outcomes for (non-)executives, before the FY20 year end, to show solidarity with affected employees and align their pay with future business results. The companies mainly reduced dividend payments and some announced (voluntary) pay cuts that would support the funding of solidarity initiatives.

Several organizations have stood down (or made redundant) significant portions of their workforce, adding to the overall feeling of insecurity in the economy. In comparison, a handful of companies have been positively affected by an increase in demand (such as supermarkets and the manufacturers or distributors of certain healthcare products).

(Non-)executive remuneration: main global actions taken in the light of COVID-19

Base salary

- Decreases in base salaries
- Individual executive board members decide to voluntarily waive their compensation
- Salary freezes considered

STI

- Adjustment of KPI or measurement methodology
- Reduction or cancellation of STI 2019 (to be paid out in 2020)
- Reduction or cancellation of STI 2020 (to be paid out in 2021)
- Deferral of STI 2019

LTI

- Adjustment of LTI FY20 KPI or measurement methodology (according to the impact on business performance)
- Modification of the duration of the vesting period
- Change of settlement (e.g. allocation of shares rather than of cash or options)
- Reduction of the grant size in case of options
- Cancellation or deferral of pay-out

NED Pay

- Reduction of non-executive director fees
- No attendance fee for board meetings concerning COVID-19

Fairly assessing pay will be crucial in this unprecedented time. External stakeholders expect executives to share the pain with shareholders when there is a material downturn in performance or shareholder value. On the other hand, companies who have had a positive impact from COVID-19 should ensure that their executives are not inappropriately rewarded by windfalls that they did not create. For organizations that have had a portion of the workforce furloughed or made redundant, executives are expected to demonstrate solidarity by sharing the pain. Executive pay will be judged in the light of the state of the broader economy and society. Any high cash incentive payments or the use of discretion by boards is likely to draw particular scrutiny, even for those companies considered to be “performing” strongly. This may demotivate executives who worked harder during the health crisis, as their remuneration is likely to be heavily affected due to reasons they have barely any control over. What constitutes a fair and reasonable pay out needs to be assessed. Should discretion be used? If so, how? Boards are under scrutiny over reward outcomes, not only in terms of figures (the amount paid out) but also in terms of the decision-making process (how the decision is taken, and whether the interests of all stakeholders, including employees, have been taken into consideration).

The current business outlook is uncertain and has the potential to be volatile for some time. Consequently, companies will have to reflect on the FY21 performance and potentially (re)think the design of their variable remuneration structures for the coming years.

Key actions and considerations

- Monitor the impact of COVID-19 on business performance, on FY21 and 3-year business plan forecasts, and on the workforce
- Monitor share price performance
- Internal fairness is essential when considering fixed pay reviews and adjustments to remuneration frameworks
- Assess alternative approaches to setting targets for upcoming performance years and produce guidelines regarding the application of discretion
- Consider whether your company can benefit from the support measures adopted by the (Belgian) government and whether you may benefit from tax incentives to rebuild your liquidity and solvency positions (e.g. “carry-back” or “reserve COVID-19”, wage withholding tax incentives related to past temporary unemployment, etc.)
- Recognize the importance of communications and dialogue with all stakeholders
- Consider non-financial rewards to motivate and retain your employees

In the financial sector, the European Banking Authority (EBA) has urged banks to follow prudent dividend (and other) distribution policies,[4] including variable remuneration, and to use capital to ensure the continuous financing of the economy. Remuneration – and, in particular, its variable portion – should be set at a conservative level. To achieve an appropriate alignment (considering the risks stemming from the COVID-19 pandemic), a larger part of the variable remuneration could be deferred for a longer period and a larger proportion could be paid out in equity instruments. The European Insurance and Occupational Pensions Authority (EIOPA) has prohibited the payment of dividends until October.

In the same way, the European Central Bank advised that dividends from share repurchases should not be paid out during the pandemic, at least until October. It should be noted that most measures taken by the Belgian Government to support companies facing financial difficulties exclude companies that paid dividends or repurchased shares during the pandemic.

Among the Selected Index companies, five decided on pay cuts for their CEO and Chairperson (only one decided to apply the pay cut only to the CEO) and three of them applied the same measures to their directors. Most reductions were introduced as temporary measures, varying from a 1-month fixed pay cut for the CEO of Elia System Operator SA to a 1-year pay cut for the CEO and Chairperson of Solvay SA, and to the entire board of IWG plc. Other companies, such as eDreams ODIGEO SA decided not to pay out the STI to the CEO due to the impact of COVID-19 on the final quarter of the fiscal year. Several companies – including Befimmo SA, D'Ieteren SA, Solvay SA – announced that they would contribute to a solidarity fund to help employees and self-employed people that were affected by the pandemic.

Overview of the measures taken by Selected Index companies

5
Companies decided pay cuts to the remuneration of the CEO and the Chairperson

3
Companies decided pay cuts also applicable to directors' remuneration

1
Company decided to cancel the pay-out of STI to the CEO

2
Companies intended to contribute to a solidarity programme

8%
Of the remuneration is the lower salary pay cut (CEO)

50%
Of the remuneration is the higher salary pay cut (CEO)

1
Company has been acquired

3
Companies opted for temporary measures (pay cuts) (e.g. applicable to one month or a semester)

2
Companies opted for measures applicable to remuneration of the entire year 2020

4 If you would like to more insights into the executive compensation changes and dividend amendments of banks across Europe in response to the COVID-19 crisis, you may consult this article: https://cglytics.com/covid-19-changes-to-executives-and-shareholders-pay-in-europes-biggest-banks/

Leadership in a crisis

Board composition

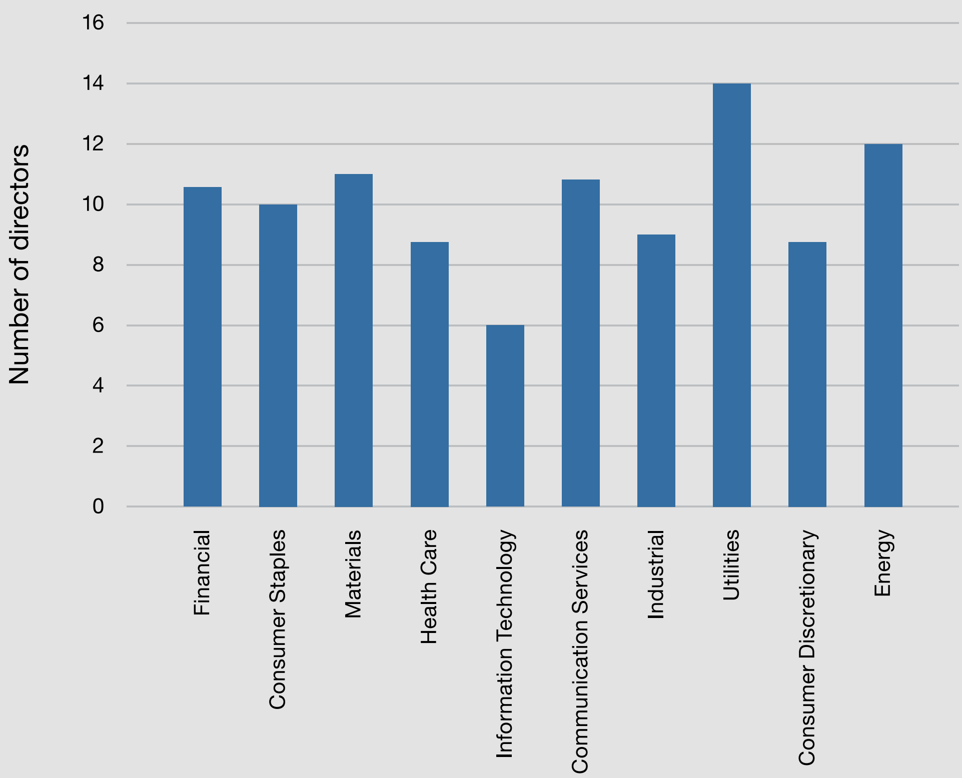
Board size

A board should be large enough to represent diverse skills, experience and knowledge, but small enough to enable effective deliberation and decision-making. In Luxembourg, a board should, in principle, comprise at least 3 members or have a maximum of 16 directors (as recommended by corporate governance in Luxembourg). There is no similar recommendation regarding the maximum number of directors under Belgian regulation and/or soft law.

Board size in the Selected Index remained stable in every sector. In 2020, board size ranges from 4 to 17 members, with an average of 10. Only 2 Belgian companies, Sofina Société Anonyme and Groupe Bruxelles Lambert SA, have more than 16 members on their board. At the other end of the scale Grand City Properties SA and Altisource Portfolio Solutions SA (LuxX Index) have the smallest boards in the Selected Index, with a board sizes less than 5 directors respectively.

The following graph shows the average number of directors per sector:

Average number of directors per sector



CGLytics Corporate Governance Data & Analysis

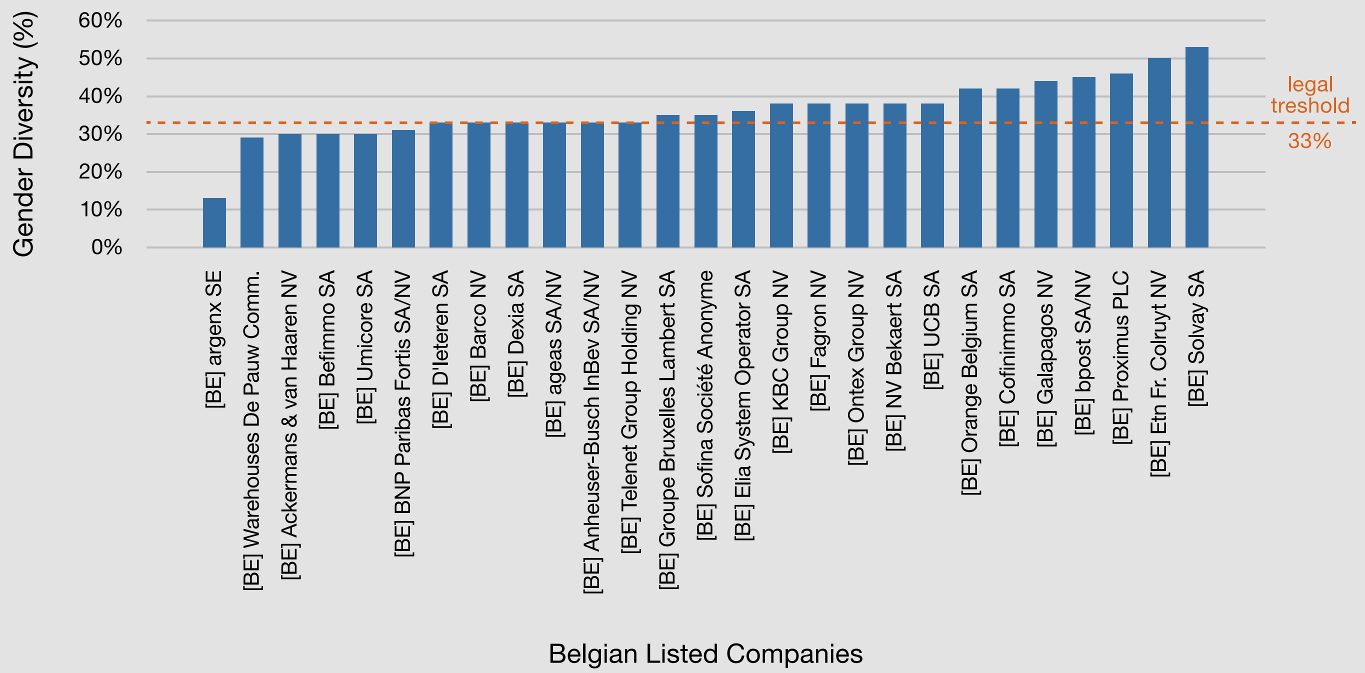
Board diversity

Under Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU, certain large undertakings and groups must disclose non-financial and diversity information in their annual report, or in a separate report to which the annual report refers. The report must provide a description of the diversity policy applied in relation to the company's directors, members of the management committee and management with regard to aspects such as age, gender and educational and professional background, the objectives of the diversity policy, the implementation methods and their outcome. If there is no diversity policy in place, the corporate governance statement should include a clear explanation of the reason(s) why it is absent (comply or explain).

The Belgian law of 3 September 2017 implementing Directive 2014/95/EU is more extensive. Belgian listed companies with more than 500 employees are required to describe their efforts to make sure that at least one-third of their board members are of a different gender than the others. The law stipulating the quota of women on the board of directors also contains sanctions, which apply to members of the board of directors and newly appointed members respectively.

The graphs below show the percentage of female board members in the companies of the Belgian and LuxX indices in 2020. It is noticeable that companies in the LuxX Index clearly lag behind the Belgian indices in terms of the representation of female members on the board; some companies in Luxembourg having no gender diversity at all. This results from the absence of legal thresholds or best practices for gender diversity on boards in Luxembourg. More Belgian companies from the Selected Index comply with the one-third threshold set out in the Belgian regulations this year than last year.

Board Gender Diversity – % women in Belgian index (2020)*



* WABCO Holdings Inc. is excluded from the graph.

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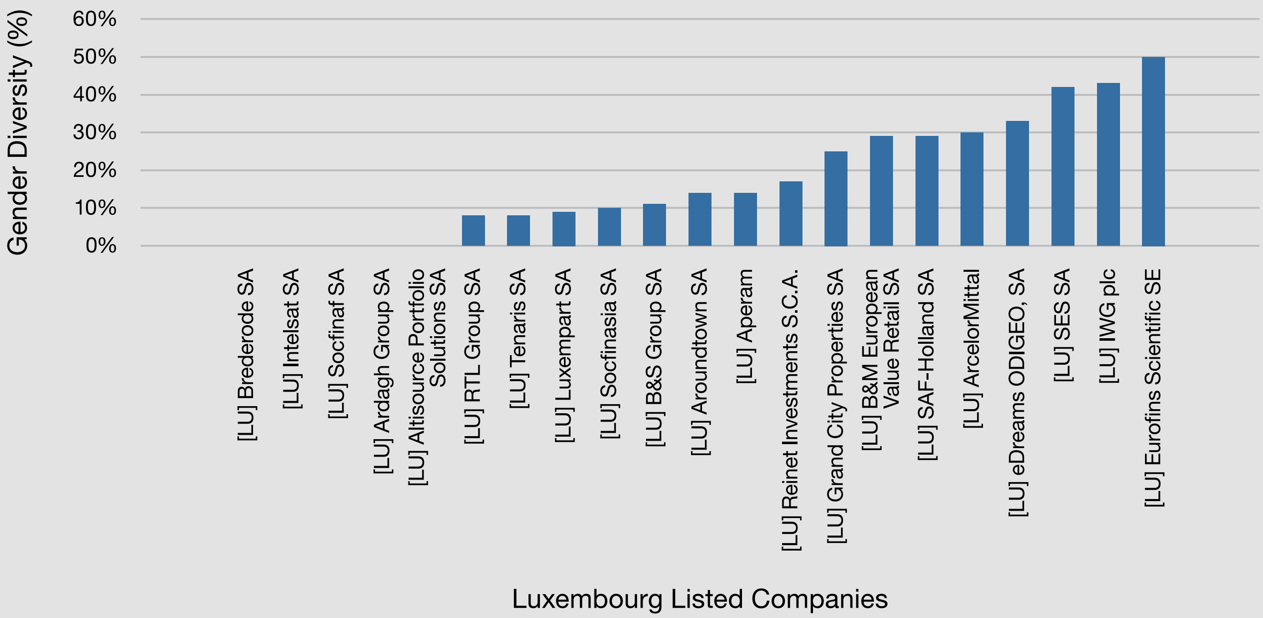
Board Gender Diversity – % women in LuxX index (2020)



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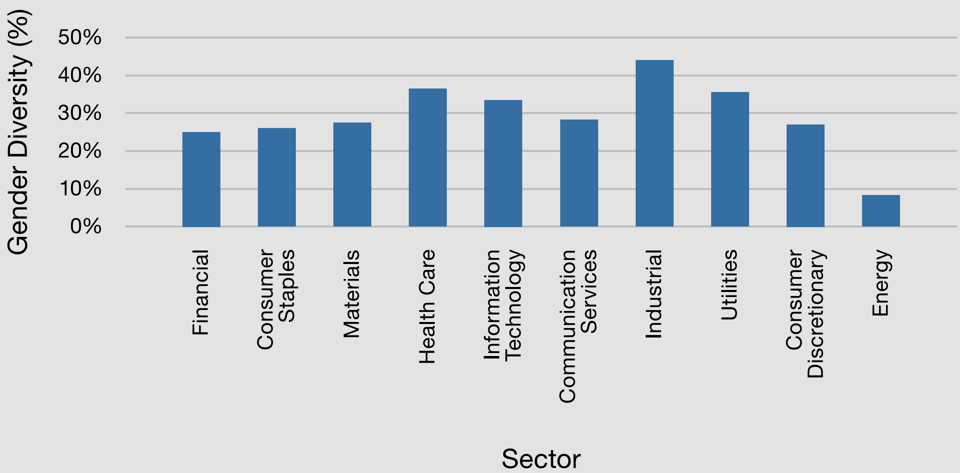
The following graph shows the representation of women on boards per sector for the Belgian and LuxX indices. The financial sector includes the following industries: financial, insurance, banks, real estate, and capital markets and comprises 6 companies from the LuxX Index and 10 companies from the Belgian indices. The energy sector is only represented by Tenaris SA (LuxX Index), which explains the low percentage of women for this sector. Overall, the percentage of women on boards increased in all sectors compared to last year.

Board Gender Diversity – % women per Sector (2020)



CGLytics Corporate Governance Data & Analysis

Evolving legislative landscape in the banking sector: The implementation of the Capital Requirements Directive V (CRD V) by Member States (by end of 2020)

The principle of equal pay for male and female workers for equal work or work of equal value is laid down in Article 157 of the Treaty on the Functioning of the European Union. That principle needs to be applied in a consistent manner by financial institutions. Therefore, they should operate a **"gender-neutral" remuneration policy**.

In this context, a gender neutral remuneration policy is a remuneration policy based on equal pay for male and female workers for equal work or work of equal value.

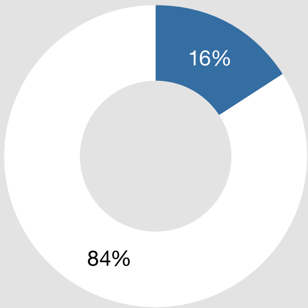
The EBA is mandated to provide guidelines on gender-neutral remuneration policies (expected in Q1 2021) and to issue a report within 2 years of the publication of the guidelines on the application of these policies.

All information on the gender pay gap has to be collected for the EBA by local regulators. Two years after the publication of the new guidelines, there will be a report on the application of gender-neutral policies.

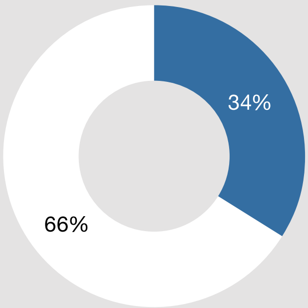
Competent authorities should collect the information (including data on the gender pay gap) and use it to benchmark remuneration trends and practices.

Despite the fact that the two countries are evolving at the same pace in terms of gender diversity, Belgium is ahead of its neighbour by 18% (on average). This can be explained by the fact that, while the culture is slowly evolving at the same rate in Belgium and Luxembourg, the existence of a legal threshold in Belgium has accelerated gender diversity in the boardroom.

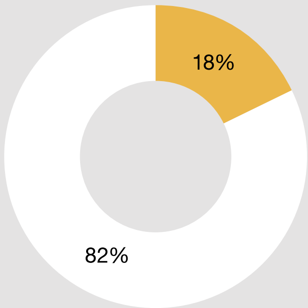
Female directors in the LuxX indices (Avg 2019)



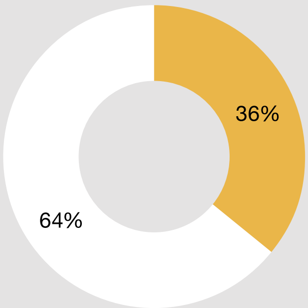
Female directors in the Belgian indices (Avg 2019)



Female directors in the LuxX indices (Avg 2020)



Female directors in the Belgian indices (Avg 2020)



CGLytics Corporate Governance Data & Analysis

How can companies demonstrate their commitment to gender diversity?

- Open and honest leadership communication around the topic of equal pay, with external validated data
- Supporting the implementation of policies, processes and procedures to ensure they are non-discriminatory
- Supporting training programmes (inclusive leadership)
- Requesting a quantitative and qualitative external audit of salary data, policies and practices

Board average age

The average age of board members in the Selected Index is approaching 60 in every sector. Eighteen companies on the Selected Index have an average age of 60 or more on their boards.

The youngest board member (33 years old) is at B&S Group SA, while the oldest one is at Sofina Société Anonyme (87). Socfinaf SA has the biggest age gap between the youngest and oldest members (49 years).

A company's long-term strategy requires a diverse board in terms of skills, experience, age, gender, ethnicity, etc. Having the right individuals in the boardroom is critical. This raises the question of board succession planning, which should not be addressed only when the board needs to replace or retire a director. Proxy advisors (companies providing advice and voting services to shareholders) have expressed concerns that insufficient age and gender diversity can burden boards with the increased risk of their members becoming seriously ill (in the context of, for example, a health crisis like COVID-19). Future research will show whether succession planning and board renewal will be adapted in preparation for the next black swan event.

Appendix – CGLytics CEO P4P Overview

The below ranking is based on the degree of alignment between TRC and performance found in the "CGLytics – 2019 P4P Alignment" chart.

	Ranking: 2019 (2017)	BeLux	2019			
			Total Realised Compensation (mln eur)	2019 TSR	Percentrank compensation	Percentrank performance
Strong Alignment	1 (23)	**argenx SE**	**5,0**	69%	87	89
	2 (3)	**KBC Group NV**	**2,1**	23%	59	55
	3 (11)	**Sofina Société Anonyme**	**1,6**	17%	49	45
	4 (1)	**Galapagos NV**	**8,1**	132%	95	100
	5 (4)	**IWG PLC**	**4,6**	112%	85	95
	6 (8)	**Proximus PLC**	**0,8**	12%	23	34
	7 (-)	**RTL Group SA**	**0,5**	-2%	0	13
	8 (13)	**Groupe Bruxelles Lambert SA**	**3,3**	27%	72	58
	9 (5)	**ageas SA/NV**	**2,1**	39%	62	76
	10 (29)	**NV Bekaert SA**	**1,6**	29%	46	66
Conservative Policy	11 (16)	**Befimmo SA**	**0,7**	16%	18	39
	12 (14)	**Cofinimmo SA**	**0,8**	23%	28	53
	13 (-)	**Luxempart SA**	**0,5**	11%	5	32
	14 (-)	**Aroundtown SA**	**0,6**	15%	10	37
	15 (-)	**Aperam**	**1,3**	32%	41	68
	16 (-)	**eDreams ODIGEO, SA**	**2,2**	80%	64	92
	17 (22)	**Grand City Properties SA**	**0,5**	17%	8	42
	18 (20)	**B&M European Value Retail SA**	**1,3**	49%	44	84
	19 (10)	**Elia System Operator SA**	**1,1**	40%	33	79
	20 (7)	**Barco NV**	**1,7**	124%	51	97
	21 (2)	**Orange Belgium SA**	**0,5**	22%	3	50
	22 (18)	**Eurofins Scientific SE**	**1,2**	53%	38	87
	23 (21)	**Fagron NV**	**0,8**	36%	21	71
	24 (15)	**Warehouses De Pauw Comm. VA**	**0,8**	44%	26	82
	25 (17)	**bpost SA/NV**	**0,7**	37%	15	74
Misaligned	26 (9)	**Umicore SA**	**4,3**	27%	82	61
	27 (19)	**SAF-Holland SA**	**0,9**	-31%	31	3
	28 (-)	**B&S Group SA**	**1,1**	-25%	36	5
	29 (30)	**Solvay SA**	**4,3**	22%	79	47
	30 (25)	**BNP Paribas Fortis SA/NV**	**1,7**	4%	54	21
	31 (32)	**Anheuser-Busch InBev SA/NV**	**17,5**	28%	100	63
	32 (24)	**Ackermans & van Haaren NV**	**2,5**	7%	67	26
	33 (28)	**Telenet Group Holding NV**	**1,8**	0%	56	16
	34 (26)	**Ontex Group NV**	**2,6**	7%	69	24
	35 (-)	**Tenaris SA**	**6,2**	10%	92	29
	36 (6)	**ArcelorMittal**	**4,3**	-13%	77	11
	37 (31)	**Altisource Portfolio Solutions SA**	**4,2**	-14%	74	8
	38 (27)	**UCB SA**	**5,6**	1%	90	18
	39 (-)	**Intelsat SA**	**16,5**	-67%	97	0
	40 (12)	**Dexia SA**	**0,7**		13	

	BeLux	Δ 2017-2019				2017-2019				
		Growth 2017-2019 TRC	Δ 2017-2019 TSR	Percentrank compensation	Percentrank performance	3YR Total Realised Compensation (mln eur)	3Y TSR	Percentrank compensation	Percentrank performance	2019 year end value of 100 eur investment made January 1st, 2017.
Strong Alignment	**argenx SE**	681%	-161%	100	0	**9,6**	801%	72	100	**901**
	KBC Group NV	0%	-1%	50	37	**6,4**	26%	65	53	**126**
	Sofina Société Anonyme	150%	11%	94	53	**10,2**	59%	80	75	**159**
	Galapagos NV	61%	102%	88	95	**20,1**	206%	98	98	**306**
	IWG PLC	261%	106%	97	98	**7,1**	88%	70	84	**188**
	Proximus PLC	-23%	9%	13	45	**2,6**	5%	31	34	**105**
	RTL Group SA		-3%		31	**0,5**	-27%	0	17	**73**
	Groupe Bruxelles Lambert SA	-29%	11%	10	48	**12,0**	26%	85	56	**126**
	ageas SA/NV	19%	26%	69	70	**5,3**	56%	57	70	**156**
	NV Bekaert SA	-17%	32%	29	84	**4,8**	-27%	52	14	**73**
Conservative Policy	**Befimmo SA**	35%	11%	79	50	**2,0**	16%	18	45	**116**
	Cofinimmo SA	10%	15%	66	56	**2,4**	40%	29	64	**140**
	Luxempart SA		-15%		17	**0,5**	33%	3	59	**133**
	Aroundtown SA	-3%		44		**1,8**		16		
	Aperam		30%		75	**1,3**	-26%	8	20	**74**
	eDreams ODIGEO, SA		20%		64	**4,6**	43%	49	67	**143**
	Grand City Properties SA	-4%	-1%	41	39	**1,6**	38%	13	62	**138**
	B&M European Value Retail SA	-18%	-6%	22	25	**4,0**	56%	44	73	**156**
	Elia System Operator SA	31%	41%	75	92	**3,0**	71%	36	81	**171**
	Barco NV	38%	111%	82	100	**4,3**	184%	47	95	**284**
	Orange Belgium SA	-22%	33%	16	87	**1,5**	10%	11	42	**110**
	Eurofins Scientific SE	10%	27%	63	73	**3,4**	24%	39	50	**124**
	Fagron NV	24%	18%	72	62	**2,1**	101%	21	87	**201**
	Warehouses De Pauw Comm. VA	-16%	30%	32	81	**2,6**	109%	34	89	**209**
	bpost SA/NV	-18%	20%	25	67	**2,2**	-44%	23	-	**56**
Misaligned	**Umicore SA**	-2%	-22%	47	12	**10,1**	68%	77	78	**168**
	SAF-Holland SA	-38%	-68%	4	6	**3,5**	-40%	41	3	**60**
	B&S Group SA					**1,1**		6		
	Solvay SA	-30%	16%	7	59	**15,1**	0%	90	31	**100**
	BNP Paribas Fortis SA/NV	1%	-2%	57	34	**5,2**	5%	54	37	**105**
	Anheuser-Busch InBev SA/NV	46%	33%	85	89	**42,1**	-23%	100	25	**77**
	Ackermans & van Haaren NV	-10%	-4%	38	28	**6,7**	9%	67	39	**109**
	Telenet Group Holding NV	-72%	-11%	0	20	**10,0**	-17%	75	28	**83**
	Ontex Group NV	68%	8%	91	42	**5,9**	-30%	59	9	**70**
	Tenaris SA		30%		78	**6,2**	-36%	62	6	**64**
	ArcelorMittal	7%	-42%	60	9	**13,3**	-25%	88	23	**75**
	Altisource Portfolio Solutions SA	-19%	-19%	19	14	**11,2**	-27%	82	12	**73**
	UCB SA	0%	-9%	54	23	**16,7**	21%	95	48	**121**
	Intelsat SA		-94%		3	**16,5**	163%	93	92	**263**
	Dexia SA	-12%		35		**2,3**		26		

PwC & CGLytics

Description

How can we help you?

PwC's P&O Consulting / Reward

- Strategic reward
- Reward regulation and corporate governance
- Executive pay and benchmarking
- Meeting employee expectations and designing flexible remuneration packages
- Reward in deals
- Pay for performance
- Reward communication and administrative support
- EQUAL-SALARY certification
- STRATA Classification of functions

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Reward is one of the key elements of sustainable performance and good corporate governance practices. Companies need effective reward programmes that comply with the rapidly changing tax and legal landscape and with corporate governance codes. At PwC, we listen to your strategic goals and work with you to design a reward programme that supports your business and is advantageous to all stakeholders.

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How can we help you?

CGLytics

- High-quality corporate governance data, analytics and actionable insights
- Pay for performance models
- Intelligent board oversight
- Governance risk monitoring
- Structured data delivery

About CGLytics

CGLytics is transforming the way corporate governance decisions are made. It combines the broadest corporate governance dataset in the market to date with the most comprehensive analytics tools. CGLytics empowers corporations, investors and professional services, allowing them to instantly perform a governance health check and indicate red flags in seconds, to ensure effective governance oversight.

Offering an award-winning, cloud-based platform, CGLytics provides an independent analysis of the governance practices of listed companies across the globe. From unique pay for performance analytics and peer comparison tools, to board effectiveness insights, companies and investors have the most comprehensive source of governance information at their fingertips.

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To obtain further information or to request a demo, please contact CGLytics at: getintouch@cglytics.com

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