Corporate governance and executive pay

Legislative landscape and market insights (2019)

April 2019

pwc

CGLytics

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Looking ahead to 2019

Boards of directors of companies in Belgium and Luxembourg are preparing their 2019 annual shareholders' meetings. To make sure they are fully ready, boards must be aware of investors' priorities as well as developments in the field of corporate governance. As executive compensation has become a corporate governance matter in itself, it is key for companies to have remuneration policies and practices in place that support and promote the company's long-term sustainable success.

PwC and CGLytics joined forces to analyse the current corporate governance and executive pay landscape to help directors and members of remuneration committees better understand shareholders' concerns and make sure they are prepared for the challenges ahead. With these objectives in mind, this report offers details of the European and national legislative frameworks in place for corporate governance, with a focus on executive pay, and the expected changes in this area. It then moves on to highlight our findings, taking into account publicly available quantitative data in the field of executive remuneration (including compensation design and the key performance indicators (KPIs) used for long-term incentive (LTI) plans). The third section focuses on key governance themes for boards, such as pay for performance and board composition.

The data sample underlying this report considers the corporate governance and executive pay practices of a selection of listed companies (hereinafter referred to as "the Selected Index"). Companies included in the Selected Index all have shares that were admitted for trading on the Belgian stock exchange or the LuxX index in the last five years. 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 2017 financial year, reference is made to companies ending their financial year on a date after 31 March 2017 or at the latest on 31 March 2018.

We expect the information in this report to prove useful for larger debate among stakeholders.

Selected Index	Index
Ackermans & Van Haaren NV	Bel 20
Ageas SA/NV	Bel 20
Argenx SE	Bel 20
Anheuser-Busch InBev SA/NV	Bel 20
Befimmo SA	Bel Mid
Bpost SA/NV	Bel 20
Cofinimmo S.A.	Bel 20
Dexia SA	Euronext Brussels
D'Ieteren SA	Bel Mid
Elia System Operator SA	Bel Mid
Etn Fr Colruyt NV	Bel 20
Groupe Bruxelles Lambert SA	Bel 20
KBC Group NV	Bel 20
NV Bekaert SA	Bel 20
Ontex Group N.V.	Bel 20
Orange Belgium S.A.	Bel Mid
Proximus PLC	Bel 20
Sofina Société Anonyme	Bel 20
Telenet Group Holding NV	Bel 20
UCB S.A.	Bel 20
Umicore S.A.	Bel 20
Brederode SA	LuxX
Luxempart S.A.	LuxX
Reinet Investments S.C.A.	LuxX
Saf-Holland S.A.	LuxX
SES S.A.	LuxX
Socfinaf SA	LuxX
Socfinasia S.A.	LuxX

Key findings & takeaways

Important to note:

- Transposition of the revised Shareholders' Rights Directive into national law by 10 June 2019
- Adoption of the Belgian Companies and Associations Code (replacing the Belgian Companies Code) in 2019
- The Belgian Corporate Governance Committee announced the Revision of the 2009 Belgian Corporate Governance Code (CGC) –The 2020 Belgian CGC must be in line with the Belgian Companies and Associations Code.

Get ready for upcoming changes…

The corporate governance landscape is changing. EU (listed) companies are increasingly subject to more and more disclosure and transparency requirements and executive compensation is now under scrutiny. Part of the call for greater transparency applies to the compensation of top executives of listed companies. Shareholders now have the right to an extended say on pay under the Revised Shareholders' Rights Directive (SRD II) ex ante through their vote on the remuneration policy and ex post via their vote on the remuneration report.

Quantitative data from the Selected Index reveals that the proportion of fixed versus variable remuneration in the total remuneration package evolves in accordance with the company's performance and differs from one sector to another, due to specific legislative requirements that may apply to the specific industry in which the company operates. We found that most companies in the Selected Index used non-cash instruments to defer part of the variable remuneration of their directors, over a period of three years, on average. Currently, financial KPIs still outweigh non-financial KPIs. However, the increasing attention paid to social corporate governance means that we may see a shift towards the use of more non-financial performance indicators in the future and an increase in their weighting in variable remuneration plans. Among these non-financial indicators are measures relating to the environment, health and safety, social aspects, diversity in the workforce, etc.

Diversity and gender equality are hot topics. The directive regarding the disclosure of non-financial and diversity information requires that large undertakings and groups report on their diversity policy in their annual report or in a separate report to which the annual report refers. Many countries have enacted further requirements into domestic law. However, measures adopted by EU Member States with respect to gender equality are not harmonised across Europe, so multinationals may assess the opportunity to act proactively in this area and make sure that their group applies gender-neutral remuneration policies and can increase women's representation at senior management level across the countries in which it operates.

We may also expect further developments in the area of corporate social responsibility (CSR) following the work of the European Lab Project Task Force on climate-related reporting.

You can stay up to date and be prepared for the upcoming changes via this report and future reports we will make available.

The revised EU Shareholders' Rights Directive (SRD II)

Its main purpose:

1. To encourage long-term shareholder engagement by facilitating the exercise of shareholder rights
2. To enhance transparency
3. To increase directors' accountability and reinforce the link between pay and company directors' performance

Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards to the encouragement of long-term shareholder engagement (i.e. the revised EU Shareholders' Rights Directive or SRD II) applies to EU companies whose shares are admitted to trading on a regulated market situated or operating in a Member State.

Shareholder engagement

SRD II establishes specific requirements in relation to the exercise of certain shareholder rights attached to the voting shares of EU-listed companies with a view to encouraging shareholder engagement for the long term. To achieve this, SRD II provides specific requirements in relation to:

i. the identification of shareholders, especially in the presence of complex chains of intermediaries and/or in a cross-border context

ii. transmission of the information

iii. facilitation of the exercise of shareholder rights

iv. non-discrimination, proportionality and transparency of charges levied by intermediaries

Transparency requirements for institutional investors, asset managers and proxy advisors

Institutional investors and asset managers. SRD II provides for transparency requirements on investment strategies and engagement policy and the implementation thereof, in particular regarding the exercise of voting rights of institutional investors and asset managers at EU-listed companies.

Proxy advisors. Proxy advisors providing services to shareholders of EU-listed companies will have to disclose the reference to a code of conduct and report on their application of that code. When proxy advisors do not apply a code of conduct or deviate from it, they must provide explanations for doing so. This information must be disclosed on the proxy advisors' website and must be updated annually.

Further, proxy advisors must disclose on their website information on their research, advice and voting recommendations, such as:

- the essential features of the methodologies and models they apply
- the main information sources they use
- the procedures put in place to ensure the quality of the research, advice and voting recommendations, and qualifications of the staff involved
- whether and, if so, how they take national market, legal, regulatory and company-specific conditions into account
- the essential features of the voting policies they apply for each market
- whether they have dialogues with the companies which are the object of their research, advice or voting recommendations and with the stakeholders of the company, and, if so, the extent and nature thereof
- the policy regarding the prevention and management of potential conflicts of interests

Shareholder oversight of directors' remuneration

SRD II aims to increase corporate transparency with regards to directors' remuneration with a view to enhancing directors' accountability. Shareholders will play a key role in this effort by exercising their voting rights on the company's remuneration policy and remuneration report.

The term 'director' is broadly defined under SRD II to be:

i. any member of the administrative, management or supervisory bodies of a company

ii. where they're not members of the administrative, management or supervisory bodies of a company, the chief executive officer and, if such function exists in a company, the deputy chief executive officer

iii. where so determined by a Member State, other persons who perform functions similar to those performed under point (i) or (ii)

Right to vote on the remuneration policy

The remuneration policy of listed companies in EU Member States will be subject to the vote of shareholders at the annual general meeting (AGM). Shareholders vote on the remuneration policy must occur at least every four years or preceding a material change in the firm's remuneration policy. The remuneration policy and the results of the ensuing vote must be disclosed on the company's website during the period that the approved remuneration policy is in effect.

The shareholders' vote will be binding unless the local legislation of the Member State implementing the directive provide for the vote to be advisory. Once approved, directors can only receive remuneration in accordance with the approved remuneration policy. When a company has an existing policy in place that has been submitted and approved by shareholder vote, and shareholders do not approve the new version of the policy, directors will be paid in accordance with the existing approved policy. In this instance, a revised, new policy will thereafter be subject to the shareholders' vote at the following AGM. If the vote is advisory and the remuneration policy does not receive a majority of support, directors should be paid under the remuneration policy submitted to the shareholders' vote; however a revised policy will be subject to the shareholders' vote at the following AGM.

Member States may allow exemptions from the remuneration policy only in exceptional circumstances: e.g. the policy would adversely affect the company's long-term interests, its sustainability goals and/or its financial viability. In such case, SRD II requires that the company explain under which procedural conditions the exceptions may be applied, as well as the elements of the policy that can be subject to such exemptions.

The remuneration policy should contribute to the firm's business strategy, long-term interests and sustainability ambitions, explain how it would contribute to achieve these objectives and describe the method used to determine to what extent the performance criteria are met. The policy should describe in clear and understandable terms the various components of directors' remuneration, including fixed and variable remuneration and all bonuses or other benefits in any form and their relative proportion. The proposed policy should indicate the awards and performance criteria under which any variable remuneration is paid. Financial and non-financial performance indicators should be included and, where appropriate, consideration should be taken of environmental, social and governance (ESG) factors. The same requirements apply to share-related remuneration, along with the requirement to mention the deferral, retention (if applicable) and vesting period in the policy.

One further provision of the directive requires that employees' pay and general working conditions must be taken into account in the remuneration policy. This provision would be enacted via an explicit comparison of the directors' remuneration for the company in question with the average remuneration of the company's full-time employees, excluding directors.

Additional remuneration data must be included in the remuneration policy, such as the duration of the contracts or arrangements with directors and the applicable notice periods, the main characteristics of supplementary pension or early retirement schemes and the terms of the termination and payments linked to termination.

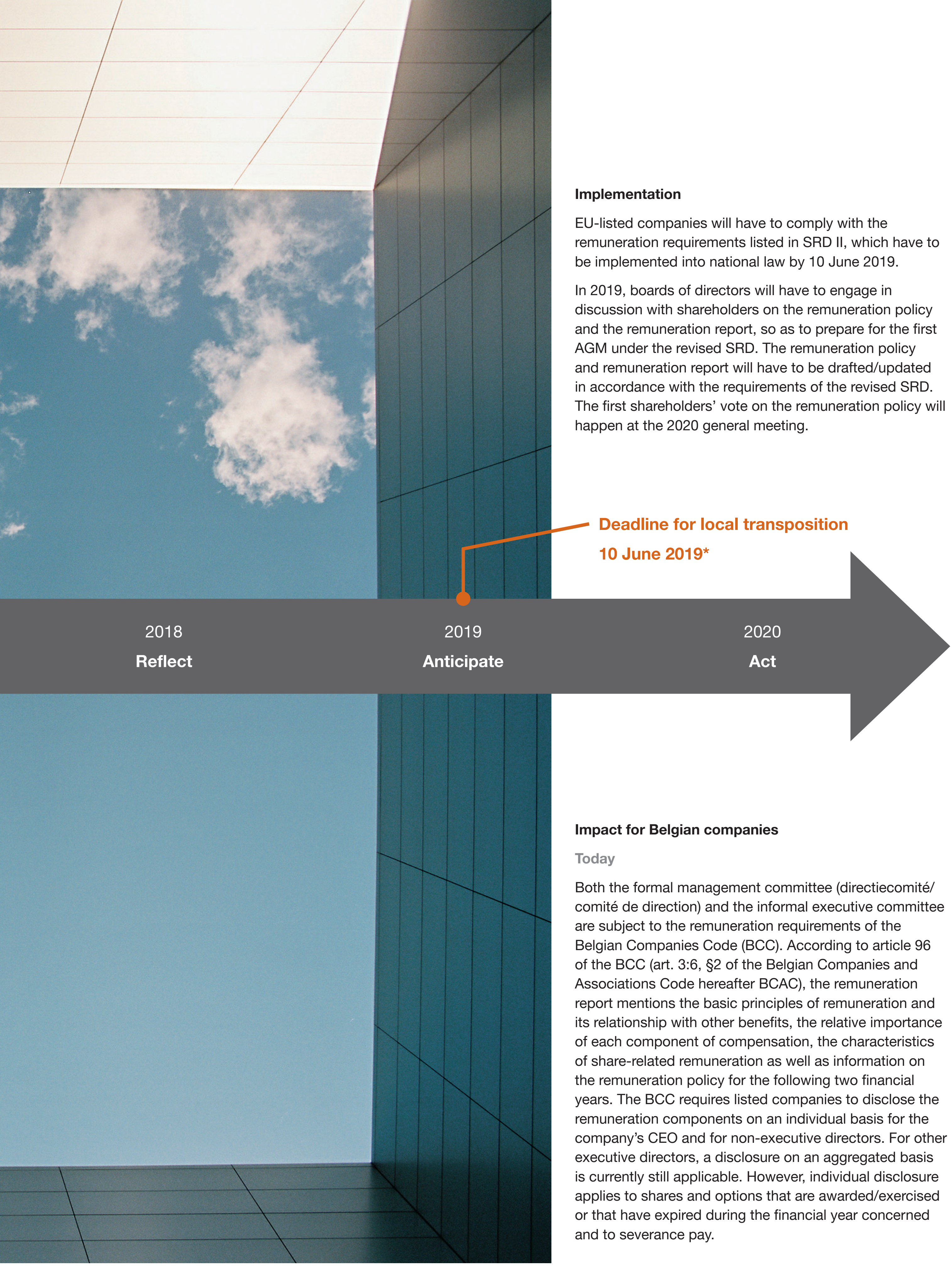
The decision-making process for the adoption of the remuneration policy, its review and implementation, including measures to avoid or manage conflicts of interests and, where applicable, the role of the remuneration committee or other committees concerned should be explained in the remuneration policy.

A revised remuneration policy must explain all significant changes to the policy and how it takes into account shareholders' votes and views on the policy and reports since the most recent shareholders' vote on the remuneration policy.

Right to vote on the remuneration report

The remuneration report of the most recent financial year will be subject to the advisory vote of shareholders. It should include a comprehensive overview of the remuneration (meaning also all benefits in whatever form) awarded or due to each individual director in accordance with the remuneration policy. If the shareholders disapprove the remuneration report, the next year's report will have to explain how the shareholders' vote has been taken into account.

SRD II lists the pay information to be included in the remuneration report and sets the framework regarding the disclosure of individual directors' personal data. The remuneration report should be publicly available on the company's website for a period of 10 years. Beyond the 10-year disclosure period, the company must ensure that the remuneration report does not contain personal data on directors.



Implementation

EU-listed companies will have to comply with the remuneration requirements listed in SRD II, which have to be implemented into national law by 10 June 2019.

In 2019, boards of directors will have to engage in discussion with shareholders on the remuneration policy and the remuneration report, so as to prepare for the first AGM under the revised SRD. The remuneration policy and remuneration report will have to be drafted/updated in accordance with the requirements of the revised SRD. The first shareholders' vote on the remuneration policy will happen at the 2020 general meeting.

Impact for Belgian companies

Today

Both the formal management committee (directiecomité/comité de direction) and the informal executive committee are subject to the remuneration requirements of the Belgian Companies Code (BCC). According to article 96 of the BCC (art. 3:6, §2 of the Belgian Companies and Associations Code hereafter BCAC), the remuneration report mentions the basic principles of remuneration and its relationship with other benefits, the relative importance of each component of compensation, the characteristics of share-related remuneration as well as information on the remuneration policy for the following two financial years. The BCC requires listed companies to disclose the remuneration components on an individual basis for the company's CEO and for non-executive directors. For other executive directors, a disclosure on an aggregated basis is currently still applicable. However, individual disclosure applies to shares and options that are awarded/exercised or that have expired during the financial year concerned and to severance pay.

Shareholders currently intervene at AGMs through their votes:

- on the remuneration report (for the past), containing the results of the applicable remuneration policy
- on an agreement to pay a severance package exceeding 12 months of remuneration (or 18 months subject to a reasoned opinion of the remuneration committee)
- on a vesting period linked to share-related remuneration of less than three years, unless such possibility is provided by the company's articles of association
- on performance criteria that deviate from the conditions provided by article 520ter of the BCC (art. 7:91 of the BCAC), unless the variable remuneration does not exceed 25% of the director's total compensation or if such deviation is provided for by the company's articles of association.

Under SRD II – Extension of shareholders' right to say on pay

The compensation of all directors will have to be reported on an individual basis. As a result, the impact for Belgian listed companies is limited to the disclosure for executive directors other than the CEO.

Another novelty is the separate vote of shareholders on the remuneration policy (for the future) empowering them to oversee and influence directors' remuneration. The shareholders' vote on the remuneration report (for the past) is not new. However, the content of the remuneration report will have to be more extensive and explicit to comply with SRD II. In particular, the (next year's) report will have to explain how the shareholders' vote on the remuneration report was taken into account.

The most innovative change is the requirement to explain the changes in directors' pay in relation to the evolution of the company's performance and employees' average pay during the period under examination.

In the future – Disclosure of the CEO pay ratio?

In the context of this report, the CEO pay ratio is the indicator of CEO compensation compared with employees' pay, usually expressed by a multiple of the median annual salary of the employees of the company concerned. Currently, the pay ratio is not part of the disclosure requirements under European corporate governance regulations, in contrast with the US and the UK. In the US, public companies are required to disclose the ratio of CEO pay to median employee pay in their proxy statement under the Dodd-Frank Act. In the UK, listed companies with more than 250 employees are required to disclose the ratio of their CEO's total remuneration to the median (50th), 25th and 75th percentile full-time equivalent remuneration of their UK employees. This new corporate governance reporting requirement applies to company reporting on financial years starting on or after 1 January 2019.

The future will tell us whether the disclosure of CEO pay ratios affects companies' executive compensation practices. It cannot be ruled out that other governments will follow the path taken by the US and the UK.

Fair pay

Fairness in pay is not only about being transparent on the remuneration and the wage gap between CEOs/executives and employees. Fair pay (also) means non-discrimination between employees (to be understood as any person employed by the company, regardless of their position in the hierarchy).

Significant developments are occurring worldwide regarding gender discrimination. Measures adopted to tackle this issue vary from country to country. Such measures may consist of transparency requirements (e.g. in Germany), the obligation to report on the gender pay gap in the company's annual report (e.g. in the UK), the requirement to have a gender pay gap analysis conducted by independent and external bodies (e.g. in Switzerland) or mandatory equal pay certification (e.g. in Iceland – such legislation is under discussion in the Netherlands).

In Belgium, equal treatment is enshrined in the Belgian Constitution and in the Non-Discrimination Act, which prohibits any direct or indirect discrimination based on certain grounds, including in employment relations. Under the Gender Non-Discrimination Act, companies employing at least 50 employees are required to conduct a detailed analysis of their remuneration structure – to ensure a gender-neutral remuneration policy – every two years and deliver their report to the employee representative body. To date, Belgian companies are not required to disclose their gender pay gap in their annual report or in their remuneration policy/report. Nevertheless, the information contained in the company's social balance sheet (i.e. the schedule appended to the company's annual accounts) must be broken down by gender. In addition, listed companies are required to describe their diversity policy in their Corporate Governance Statement pursuant to article 96, §2, 6° of the BCC / art. 3:6, §2 of the BCAC (see the section on board composition for further information in this respect).

In Luxembourg, labour law prohibits companies from using criteria other than knowledge, experience and responsibilities to determine remuneration. Despite initiatives of the Ministry of Equal Opportunities to raise awareness on the gender pay gap, no further legal provisions exist on this matter.

Executive remuneration

Compensation design

Ratio of fixed versus variable remuneration

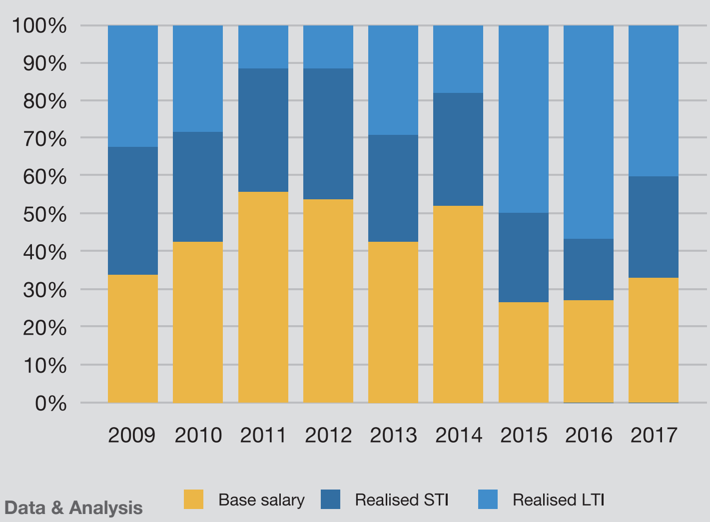
Variable remuneration should support the company's sustainability and long-term performance, and be subject to a sound risk assessment. In Belgium, the BCC does not set a cap or a ratio on the variable remuneration attributed to directors and CEOs. However, it lays down specific requirements with regards to severance packages (so-called golden parachutes), variable remuneration in case it exceeds 25% of the total compensation and the vesting/exercise of share-related remuneration (articles 520bis, 520ter and 554 of the BCC - articles 7:91 and 7:92 of the BCAC). Furthermore, variable remuneration paid by means of quoted or non-quoted options on quoted shares of investment vehicles should not exceed 20% of a defined maximum threshold, according to the Belgian Tax Ruling Service. Otherwise, the grant would be considered as a disproportional use of these instruments.

The graph below shows the evolution of proportion to the realised variable remuneration (short-term and long-term incentives) compared to the base salary for the Selected Index (excluding the LuxX index). The weighting of the base salary in terms of total compensation dropped to 32,8% of the total compensation in 2017. The graph also shows that realised variable pay represented a larger proportion of total compensation between 2011 and 2014. This situation may be explained by the financial crisis that started in 2008, as most of the companies in the Selected Index have a three-year vesting period linked to their long-term incentive plan (LTIP), according to their remuneration policy, suggesting that actual pay-outs of variable pay were more limited in the first years after 2008, resulting in an increase in the relative importance of the base pay relative to the total package.

Banks and insurance companies are subject to specific governance and remuneration requirements; for instance the variable pay of "Identified Staff" cannot exceed 100% of the fixed remuneration (200% with approval of the shareholders) under the capital requirements directive (CRD IV). Under the Belgian Banking Act, the variable pay of Identified Staff is capped at the higher limit of 50% of fixed remuneration and 50,000 euros. Considering their responsibilities, directors are subject to the remuneration requirements of the Belgian Banking Act.

The pie charts on the next page show the proportion of short-term incentives (STIs) and LTIs for the Selected Index across all sectors versus the banking and insurance sector. The chart on the right reflects the cap on variable remuneration for these companies, which applies to both STIs and LTIs. It should be noted, however, that the number of companies in the Selected Index active

Evolution of proportion of base salary, STI and LTI (2009-2017) – all sectors*



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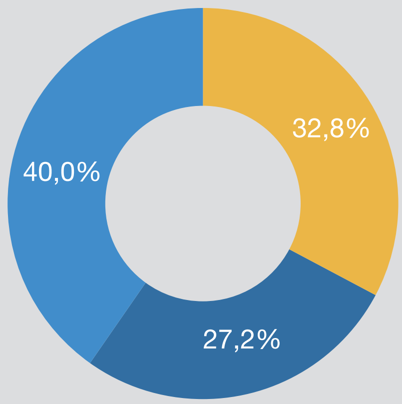
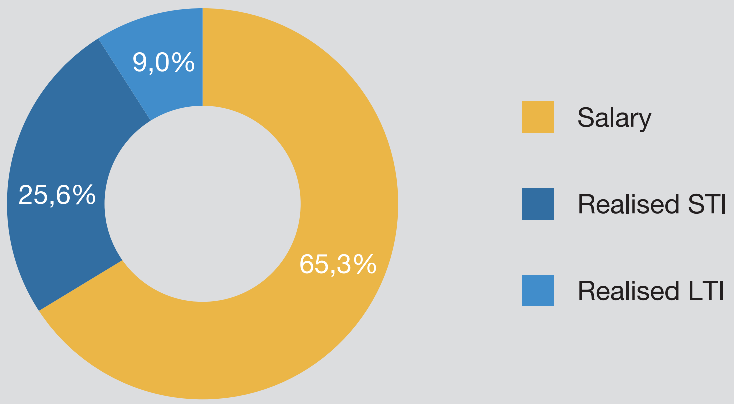
* Companies whose shares are admitted to the LuxX index are excluded from the graph.

Proportion of base salary, STI and LTI (2017) – all sectors of the Selected Index



2017 – Banks & insurance companies of the Selected Index



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in the banking and insurance sector is limited, meaning that the figures should be interpreted cautiously. The low proportion of realised LTIs of companies in the banking and insurance sector may be explained by a few reasons: the deferral and/or vesting requirements or claw back under the Belgian Banking Act or the prohibition on paying variable remuneration in certain circumstances for banking companies that benefitted from exceptional financial support from the public authorities.

Deferral

Under the BCC, directors' variable remuneration in listed companies must be evaluated against predetermined objectives and measurable KPIs. According to article 520ter of the BCC (art. 7:91 of the BCAC), the performance criteria of variable remuneration – where the variable part of the remuneration exceeds 25% of the total compensation – should be based on performance criteria relating to:

i. a one-year performance period for maximum 50% of the variable pay

ii. a two-year performance period for at least 25% of the variable pay and

iii. a three-year performance period for at least another 25% of the variable pay

iv. unless provided otherwise by the company's articles of association or authorised by shareholders' approval

With respect to shares or options schemes attributed to directors of listed companies, the BCC requires that such shares cannot vest or the options cannot be exercised prior to the third year following their award, unless provided otherwise by the company's articles of association or authorised by shareholders' approval.

Ratio of cash versus non-cash instruments

Most companies of the Selected Index have LTIs in place, which represent shares, options, cash or a combination of these elements. Amongst the Selected Index, options and shares are used more often than cash incentives. Non-cash instruments are usually used to defer part of the variable compensation.

KPIs of LTI plans

Financial performance indicators still represent a significant part in the weighting against non-financial performance criteria. The figures for the Selected Index show that the average weighting of financial KPIs reached 91% against just 9% for non-financial KPIs. This trend could change in the upcoming years, with an increasing investor focus on a company's corporate social responsibility.

Top five financial KPIs	Top five non-financial KPIs
1. Share price	1. Corporate social responsibility (CSR/ ESG)
2. EBITDA	2. Strategic objectives
3. Revenue	3. Employee satisfaction
4. Cash flow	4. Customer number
5. Total shareholder return	5. Other

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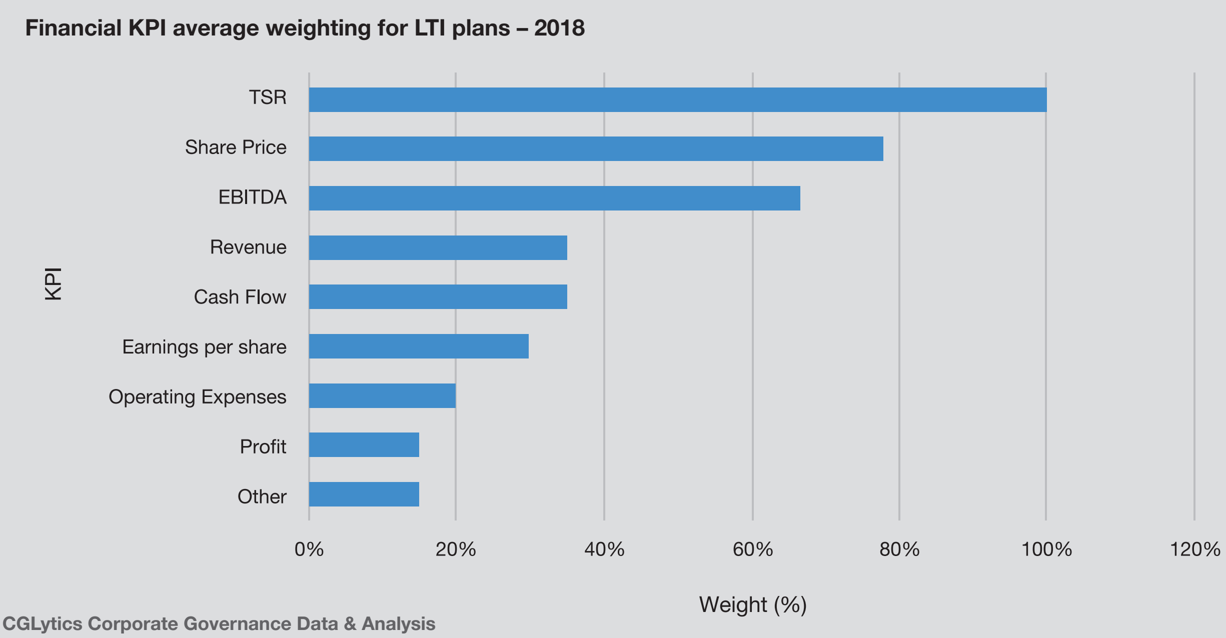
Whereas the table above shows the most commonly used financial and non-financial KPIs by the Selected Index, the charts below illustrate the weighting of these measures based on their remuneration policy.



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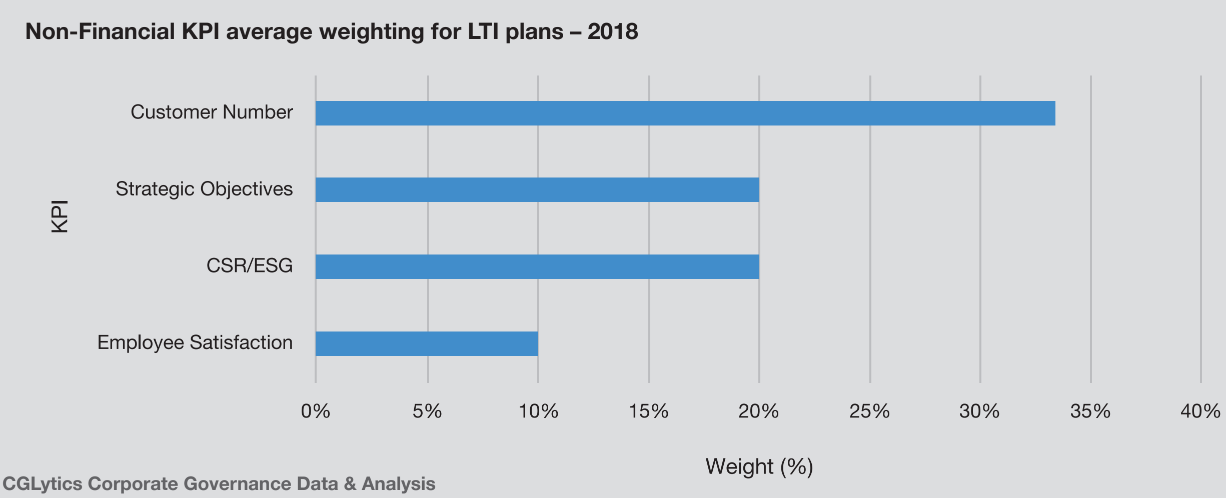

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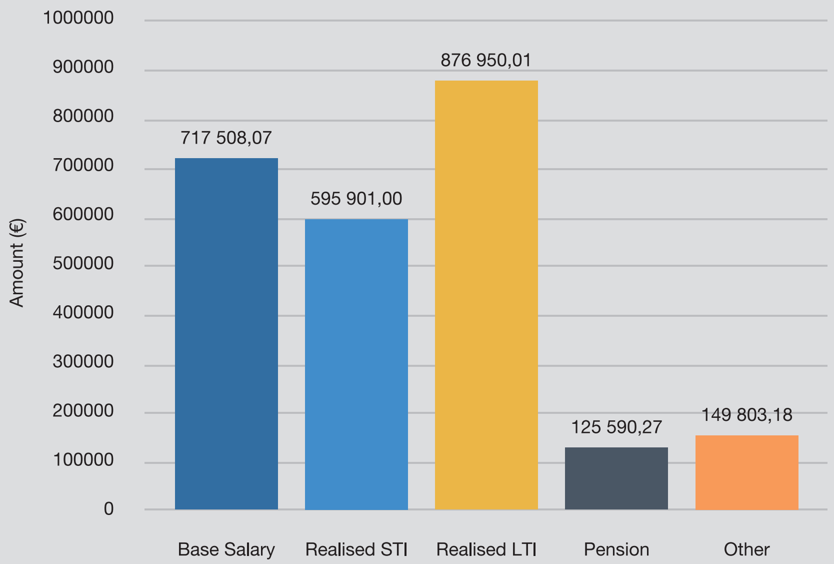
Interestingly, the figures of the Selected Index reveal that corporate social responsibility (CSR) and ESG indicators are the most common non-financial KPIs whereas the weighting of such indicators comes after that of customer numbers and strategic objectives. CSR and ESG indicators relate to health and safety, environment and safety, corporate responsibility, reputation, etc.

Other components of remuneration

Most companies also offer directors a pension plan and other benefits (company car, mobile phone, health plan, etc.). The graph below shows the average amounts allocated to the elements of CEO compensation for the Selected Index (figures for 2017).



Year 2017

Base Salary	717 508,07
Realised STI	595 901,00
Realised LTI	876 950,01
Pension	125 590,27
Other	149 803,18

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Key governance themes for boards

Pay for performance (P4P)

The graph below shows the evolution of the total shareholder return (TSR) compared to the total realised pay of CEOs of the Selected Index (excluding the LuxX index).

The total realised pay includes all realised components of compensation in the year under consideration. It is defined as the sum of total direct and indirect compensation realised during the year, i.e. the sum of the base salary, benefits, bonus, deferred cash bonus, deferred share bonus, value of performance/restricted shares vested, value of performance/restricted options exercised and other compensation. The total realised pay is calculated based on performance indicators that have been met during the performance period. Most companies clearly disclose the performance period and vesting period and the percentage that will be paid in the next year. For example, for shares that vested on 31 March 2018, but where the performance period ended on 31 December 2017, shares are included in realised compensation for financial year 2017. When the company does not disclose the average share price over the last quarter, the company's year-end share price was used to calculate the value of the vested multi-year share packages.

The figures highlight that CEO compensation reacts quite slowly to the evolution of TSR. For instance, one may observe that CEO pay decreased in 2010, but not in a way comparable to the decline of TSR. In 2011, the total realised pay continued to decrease whereas TSR showed a sharp rise. For the period 2015 to 2017, TSR shows a negative return, with limited impact on the total realised pay. Based on the graph, it seems that CEO pay takes approximately two years to align with TSR. It may be explained by the payment of pay elements subject to performance criteria based on the TSR, which therefore reflects the evolution of the TSR with a two year gap. The future will tell whether the introduction of the vote on the remuneration policy, which is future-oriented, will help improve a backlog in terms of alignment between pay and TSR.

Pay vs TSR: Absolute Growth

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In terms of relative growth, the graph below shows that TSR evolves relatively faster compared to the evolution of total realised compensation (TRC – same trend as for total realised pay in the above graph). From 2014 to 2015, compensation grew by 69% while TSR fell by 15%.

CEO Pay vs Total Shareholder Return: Relative Growth

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CGLytics CEO Pay for Performance review demonstrates the alignment between CEO pay and company performance.

CGLytics CEO Pay for Performance review: 2017

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

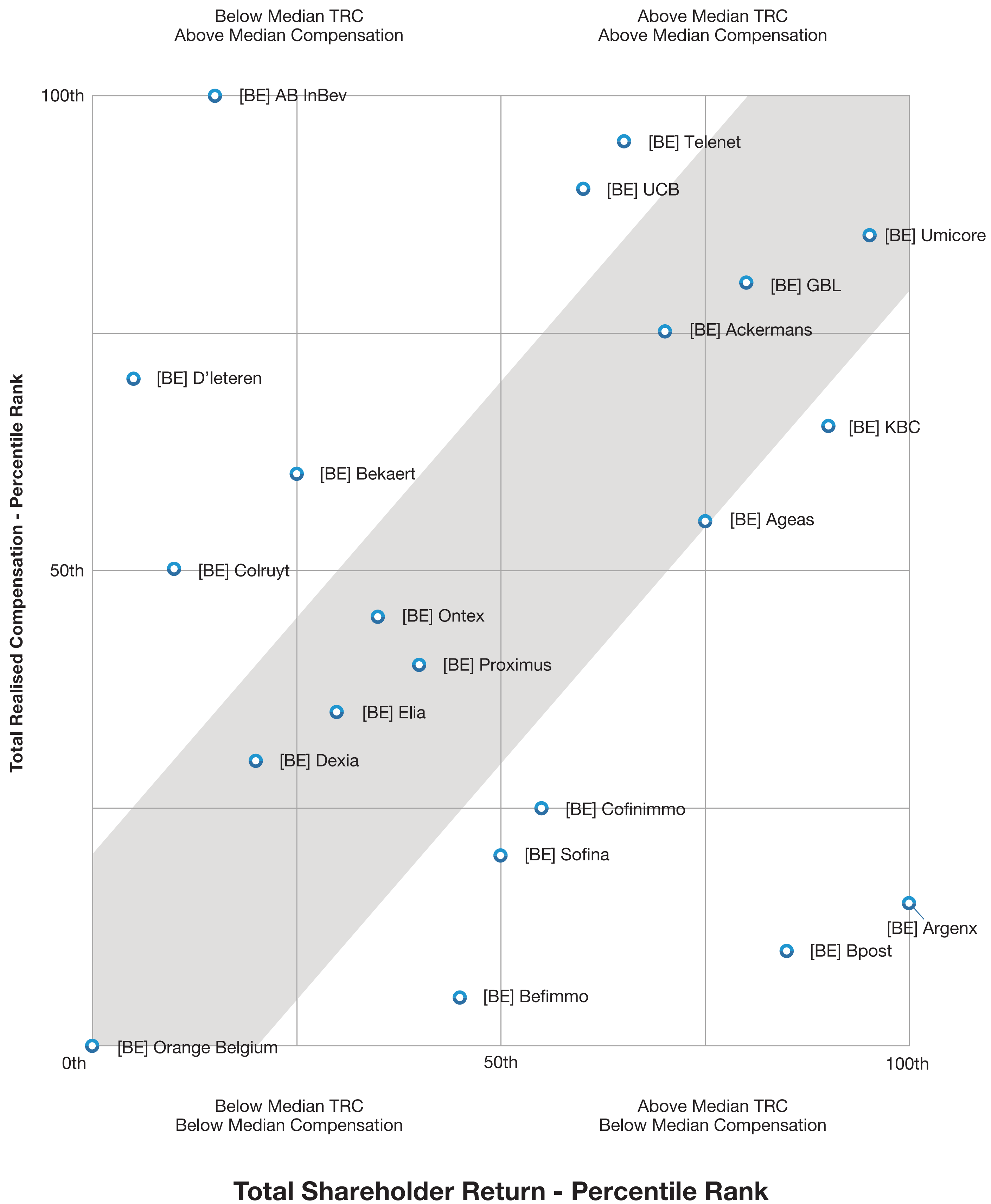
CGLytics CEO Pay for Performance review: 2015-2017

- 33% of companies display good performance alignment
- 33% of companies are conservative in their pay practices
- 33% of companies display pay for performance misalignment

Interpreting such observations must take account of the company's situation, such as its size and sector, its local or international activities and whether investments were made during the financial year under consideration, etc.

CGLytics CEO Pay for Performance alignment: 2017

CEO Total Realised Compensation (TRC) vs Total Shareholder Return (TSR) (Percentile Rank)



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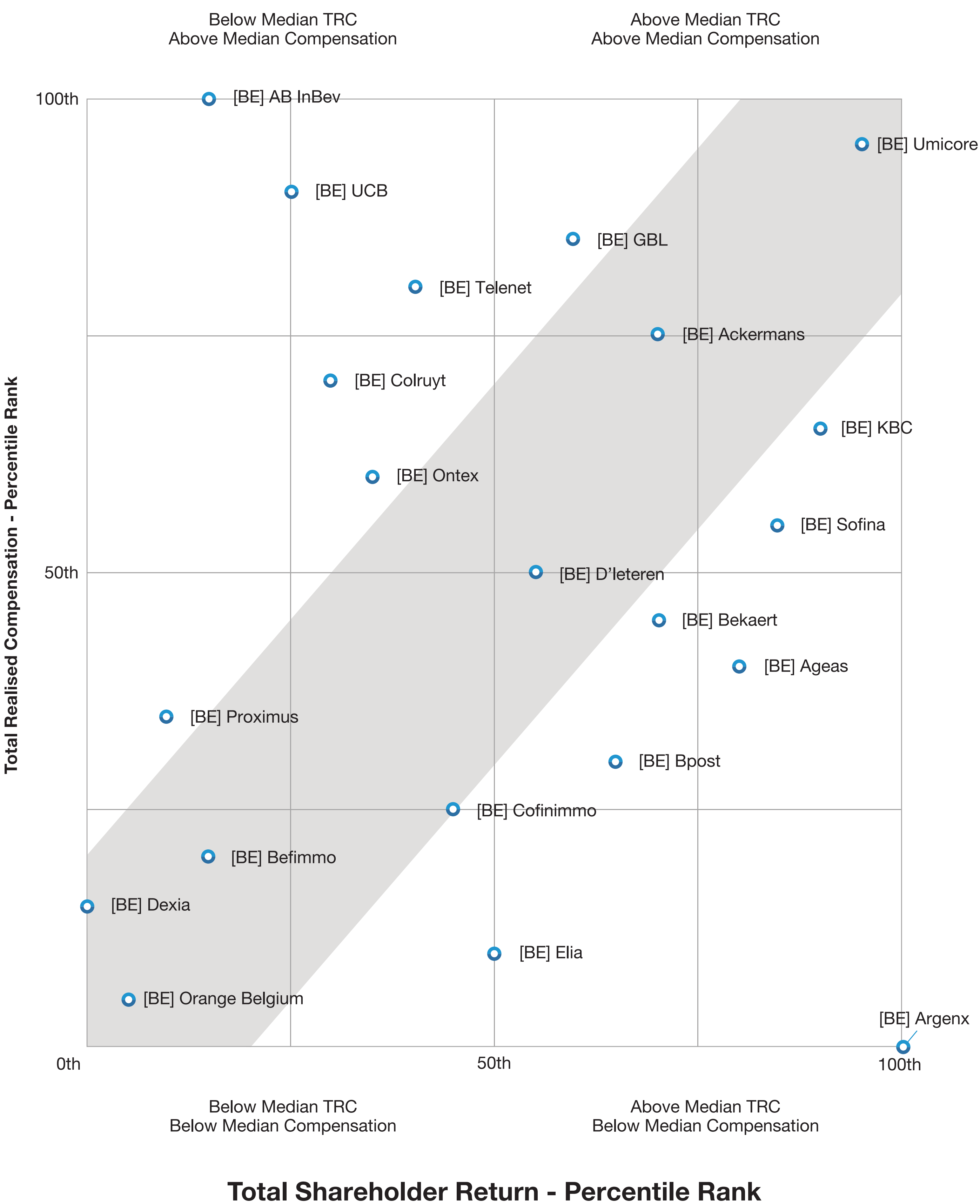
CGLytics CEO Pay for Performance alignment: 3-year basis (2015-2017)

CEO Total Realised Compensation (TRC) vs Total Shareholder Return (TSR) (Percentile Rank)



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Board composition

The Belgian and Luxembourg Corporate Governance Codes (CGCs) specify that the board should be large enough to represent diverse skills, experience and knowledge, but small enough to enable effective deliberation and decision making. The Luxembourg CGC recommends boards not to exceed 16 directors. The Belgian CGC has no such guideline on the maximum size of boards.

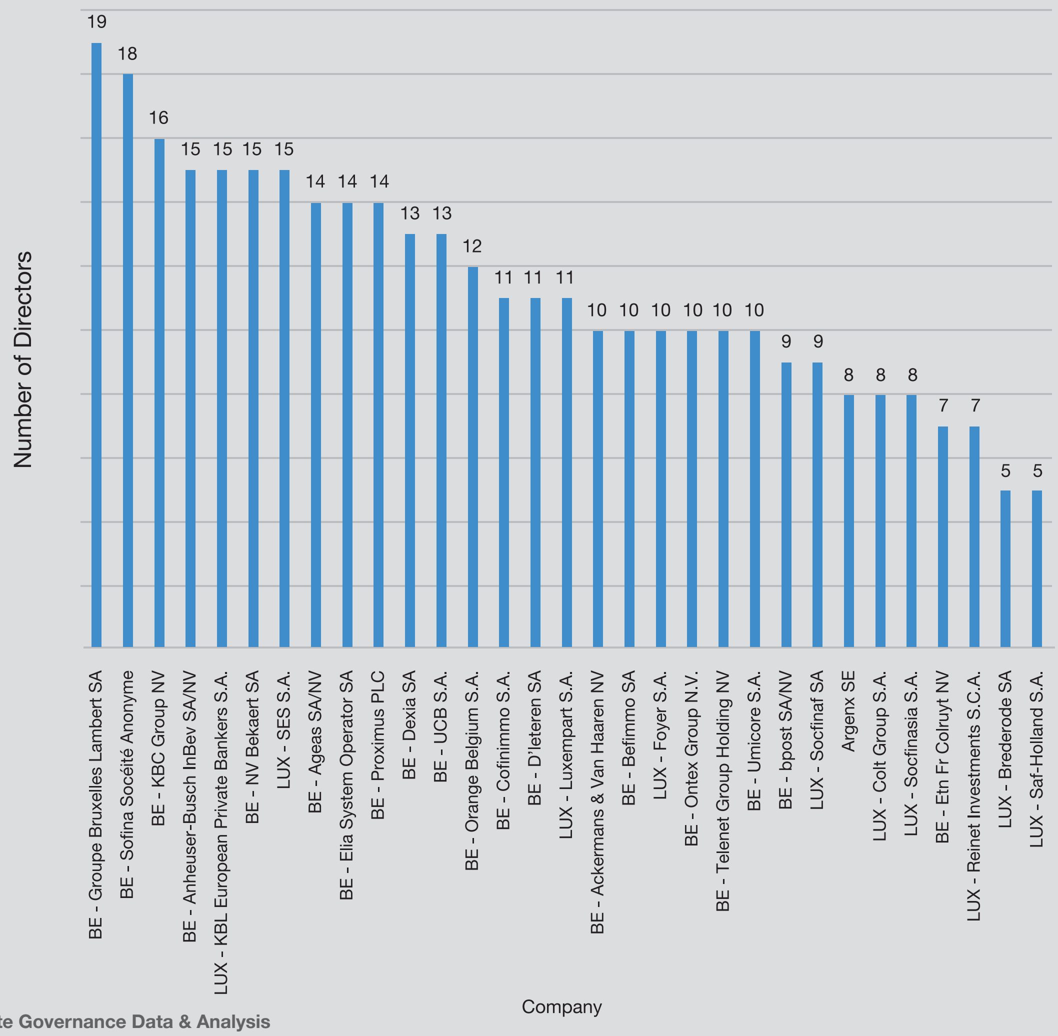
In Belgium, a minimum of three members make up a board, except in cases where the company has only two shareholders (the BCAC provides for the possibility to have one single member provided that the sole director is a public limited company governed by a collegial body). The Belgian CGC recommends companies to have a mix of executive and non-executive directors on their board, as well as independent directors as mentioned in article 526ter of the BCC (article 7:85 and 7:101 of the BCAC). There is no requirement to appoint employees or employee representatives as members of the board of directors, they will be able to express their concerns through representation in the works council.

The size of the board of the Selected Index ranges from five to 19 members, with an average of 11 members. Saf-Holland S.A. and Brederode SA have a board of five members. Groupe Bruxelles Lambert SA is the company with the highest number of board members. Only Belgian companies of the Selected Index have more than 16 members on their board.

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 such policy is absent (comply or explain).

Among the Selected Index companies, board members have an average age of 57 years, with the youngest member being 34 years (Socfinaf SA and Socfinasia S.A.) and the oldest being 83 years (Socfinaf SA). Etn Fr Colruyt NV and Saf-Holland S.A. have the smallest age range, which is understandable, given their board size. On the other hand, Groupe Bruxelles Lambert SA and Socfinaf SA have the biggest age gap.

Board size



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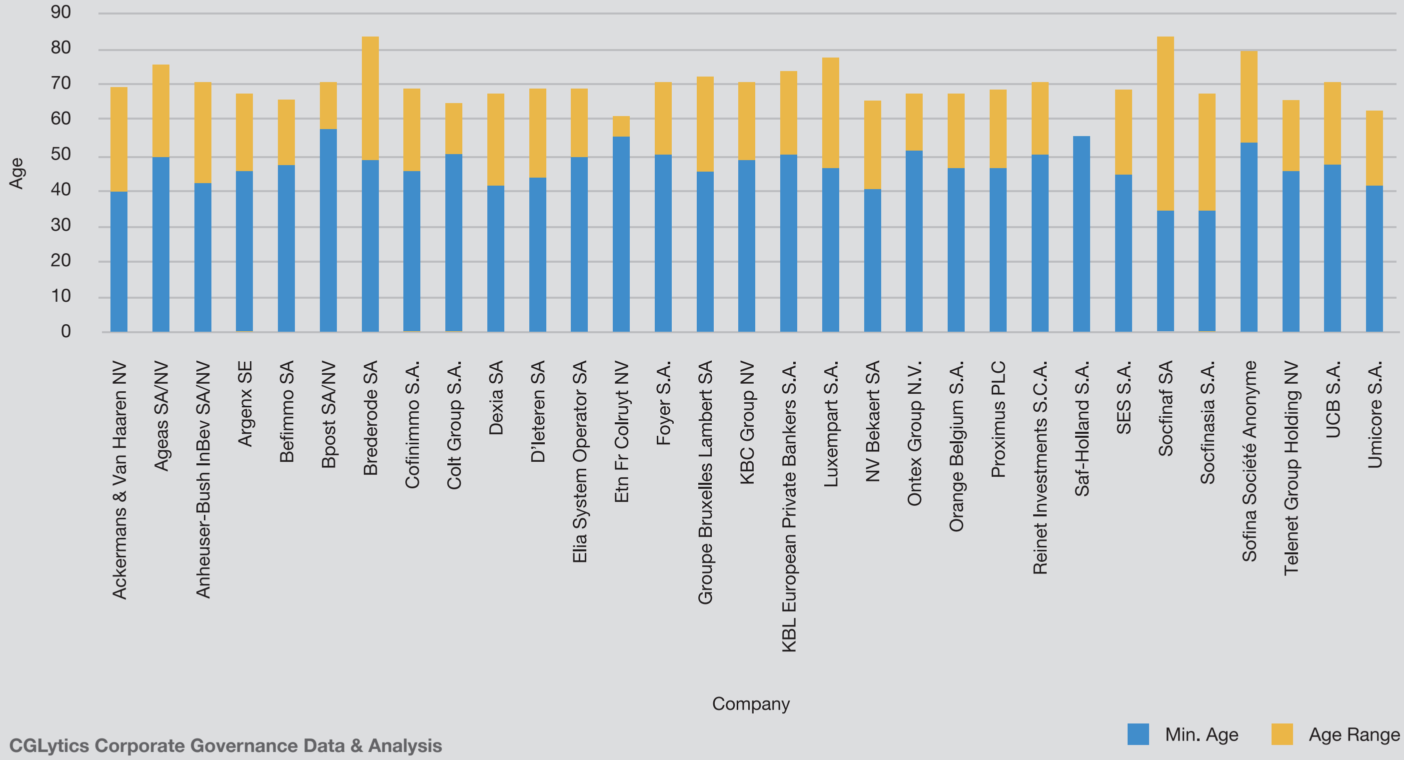
Board members – minimum and maximum age



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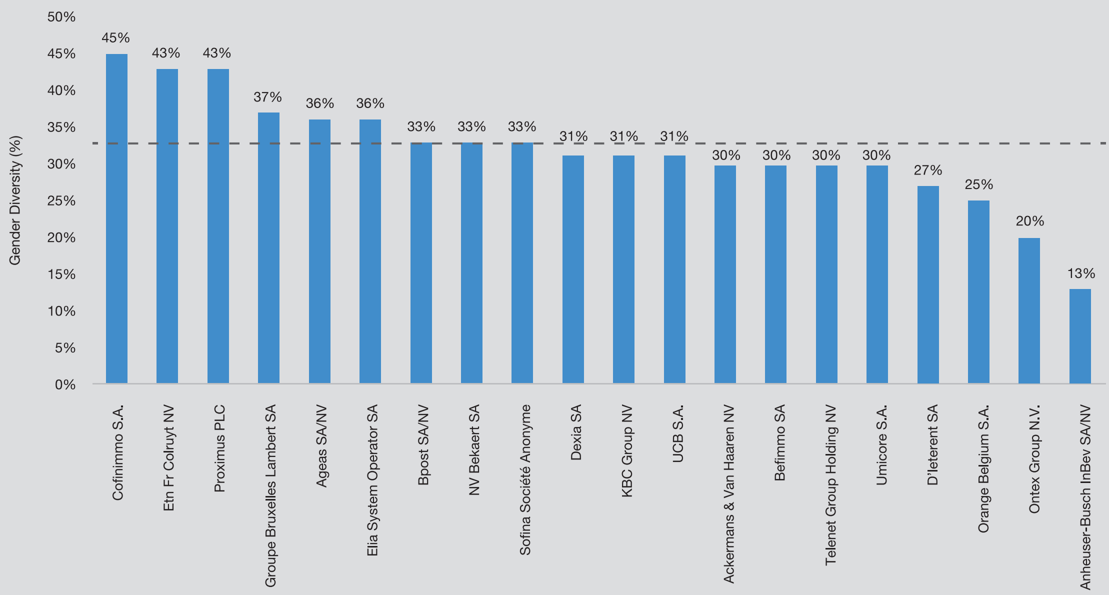
Gender Diversity - % of women on company board (2018)

Belgium



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The Belgian Act of 3 September 2017 implementing Directive 2014/95/EU goes further in its requirements. 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 other members. The law on quota of women in the board of directors also contains sanctions, which apply to members of the board of directors and newly appointed members respectively.

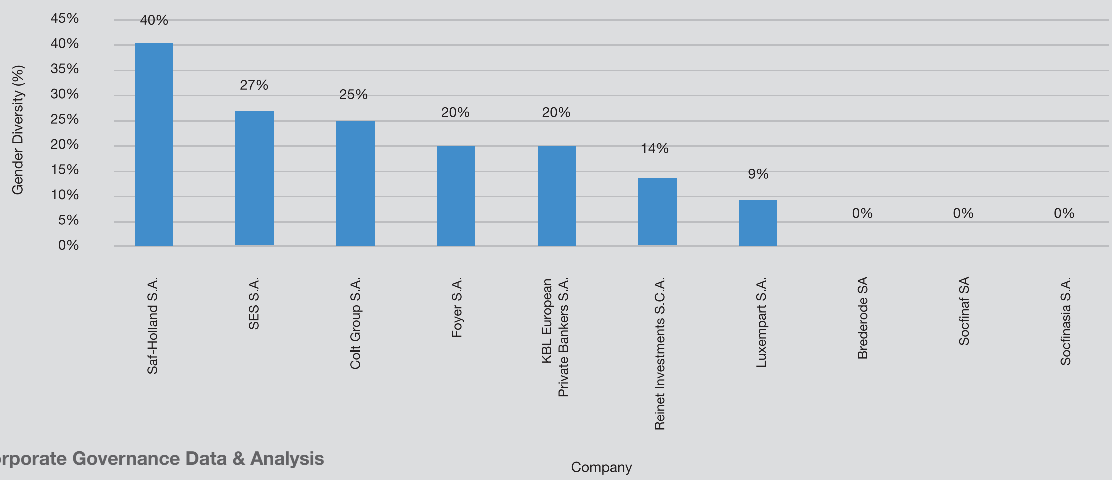
Almost half of the Belgian companies in the Selected Index reached the one-third threshold set by Belgian law, with Cofinimmo S.A. as best in class. Nine Belgian companies have between one quarter and one third women on their board and two companies have less than one quarter of the board composed of women.

Saf-Holland S.A. shows a good score on gender diversity for the LuxX index, while no women are represented on the board of Brederode SA, Socfinaf SA and Socfinasia S.A.

The comparison of the Selected Index, despite its limited number of companies under examination, clearly reveals that Luxembourg companies lag behind Belgium in the area of board diversity. This can be explained by the absence of legal thresholds or best practices for gender diversity on boards in Luxembourg.

Gender Diversity - % of women on company board (2018)

Luxx index



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ESG

Company's ethics is gaining importance for investors and is increasingly winning attention in society. The CSR statement, which is part of the company's annual report, includes the following topics:

i. environmental matters

ii. social and employee matters

iii. respect for human rights, anti-corruption and bribery matters

Environmental matters

The European Confederation of Directors Associations (ecoDa), a Belgian non-profit association representing board directors of listed and non-listed companies across the EU, will be represented at the European Lab Project Task Force (PTF) on climate-related reporting. The PTF has been appointed to analyse climate-related reporting information of EU companies, identify good practices and challenges, and assess the potential use of climate-related information by investors and other users. We may expect further developments in the area of climate-related reporting in the near future.

ESG and compensation

The table below shows the non-financial KPIs used by the Selected Index. Most companies used non-financial KPIs relating to environmental matters, health and safety. We may expect changes in this area as ESG gains in importance. Further, the work of the PTF may bring opportunities to introduce or further develop KPIs in relation to climate issues.

Environmental matters	Social and employee matters	Respect for human rights, anti-corruption and bribery matters
Non-financial KPIs: • environment, health & safety	**Non-financial KPIs:** • diversity in the workforce • employee engagement • length of service • HR management	**Non-financial KPIs:** • qualitative targets • compliance

Appendix – CGLytics CEO P4P overview

	Ranking: 2017 (2015)	BELUX	2017			
			Total Realised Compensation (mln eur)	2017 TSR	Compensation Ranking	Performance Ranking
Strong Alignment	1(5)	**Groupe Bruxelles Lambert SA**	**2,8**	16%	80	80
Strong Alignment	1(7)	**Orange Belgium S.A.**	**0,4**	-10%	0	0
Strong Alignment	1(9)	**Proximus PLC**	**0,9**	4%	40	40
Strong Alignment	2(14)	**Elia System Operator SA**	**0,8**	-2%	35	30
Strong Alignment	2(6)	**Ackermans & Van Haaren NV**	**2,8**	11%	75	70
Strong Alignment	3(15)	**Dexia SA**	**0,8**	-5%	30	20
Strong Alignment	3(19)	**Umicore S.A.**	**4,4**	48%	85	95
Strong Alignment	3(10)	**Ontex Group N.V.**	**1,6**	-1%	45	35
Strong Alignment	4(13)	**ageas SA/NV**	**1,8**	13%	55	75
Conservative Practice	5(2)	**KBC Group NV**	**2,1**	24%	65	90
Conservative Practice	6(12)	**Sofina Société Anonyme**	**0,7**	6%	20	50
Conservative Practice	6(4)	**Cofinimmo S.A.**	**0,8**	8%	25	55
Conservative Practice	7(17)	**Befimmo SA**	**0,5**	5%	5	45
Conservative Practice	8(1)	**bpost SA/NV**	**0,6**	17%	10	85
Conservative Practice	9(16)	**argenx SE**	**0,6**	229%	15	100
Misaligned	10(21)	**Telenet Group Holding NV**	**6,4**	10%	95	65
Misaligned	10(11)	**UCB S.A.**	**5,5**	10%	90	60
Misaligned	11(18)	**NV Bekaert SA**	**1,9**	-4%	60	25
Misaligned	12(8)	**Etn Fr Colruyt NV**	**1,7**	-6%	50	10
Misaligned	13(3)	**D'leteren SA**	**2,6**	-9%	70	5
Misaligned	14(20)	**Anheuser-Busch InBev SA/NV**	**12,0**	-5%	100	15

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	BELUX	Δ 2015-2017				2015-2017				
		Growth 2015-2017 TRC	Δ 2015-2017 TSR	Compensation Ranking	Performance Ranking	3YR Total Realised Compensation (mln eur)	3Y TSR	Compensation Ranking	Performance Ranking	2017 year end value of 100 eur investment made January 1st, 2015
Strong Alignment	**Groupe Bruxelles Lambert SA**	180%	1%	90	75	**11,4**	38%	85	60	**138**
	Orange Belgium S.A.	-47%	-24%	10	30	**1,2**	-9%	0	5	**91**
	Proximus PLC	12%	0%	50	70	**2,5**	1%	35	10	**101**
	Elia System Operator SA	316%	-16%	95	45	**1,9**	34%	10	50	**134**
	Ackermans & Van Haaren NV	-19%	-23%	35	40	**7,1**	47%	75	75	**147**
	Dexia SA	-2%	-89%	40	0	**1,9**	-60%	15	-	**40**
	Umicore S.A.	34%	30%	65	95	**13,2**	150%	95	95	**250**
	Ontex Group N.V.	-21%	-40%	30	5	**5,6**	20%	60	35	**120**
	ageas SA/NV	26%	-38%	55	10	**4,9**	54%	40	80	**154**
Conservative Practice	**KBC Group NV**	39%	-3%	70	60	**5,7**	64%	65	90	**164**
	Sofina Société Anonyme	-71%	-15%	0	50	**5,5**	58%	55	85	**158**
	Cofinimmo S.A.	8%	-1%	45	65	**2,1**	34%	25	45	**134**
	Befimmo SA	-43%	10%	15	90	**2,1**	3%	20	15	**103**
	bpost SA/NV	-27%	4%	25	85	**2,2**	38%	30	65	**138**
	argenx SE	89%	183%	80	100	**1,4**	589%	5	100	**689**
Misaligned	**Telenet Group Holding NV**	356%	3%	100	80	**9,2**	25%	80	40	**125**
	UCB S.A.	54%	-23%	75	35	**12,5**	8%	90	25	**108**
	NV Bekaert SA	30%	-14%	60	55	**5,2**	47%	45	70	**147**
	Etn Fr Colruyt NV	-39%	-32%	20	15	**6,1**	19%	70	30	**119**
	D'leteren SA	106%	-29%	85	25	**5,3**	34%	50	55	**134**
	Anheuser-Busch InBev SA/NV	-53%	-30%	5	20	**55,5**	7%	100	20	**107**

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PwC & CGLytics

How can we help you?

PwC's People & Organisation reward services

- Strategic reward
- Reward regulation & corporate governance
- Executive pay
- Meeting employee expectations & designing flexible remuneration packages
- Reward in deals
- Pay for performance
- Reward communication and administrative support
- Equal-Salary Certification

About PwC

PwC helps organisations and individuals create the value they're looking for. We're a Network of firms in 158 countries with more than 236,000 people committed to delivering quality in assurance, tax and advisory services. Our mission is to build trust in society and solve important problems. 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 modeller
- Intelligent board oversight
- Governance risk monitoring
- Structured data delivery

About CGLytics

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

Offering an award-winning, cloud-based platform, CGLytics provides an independent analysis of 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 access to the most comprehensive source of governance information at their fingertips.

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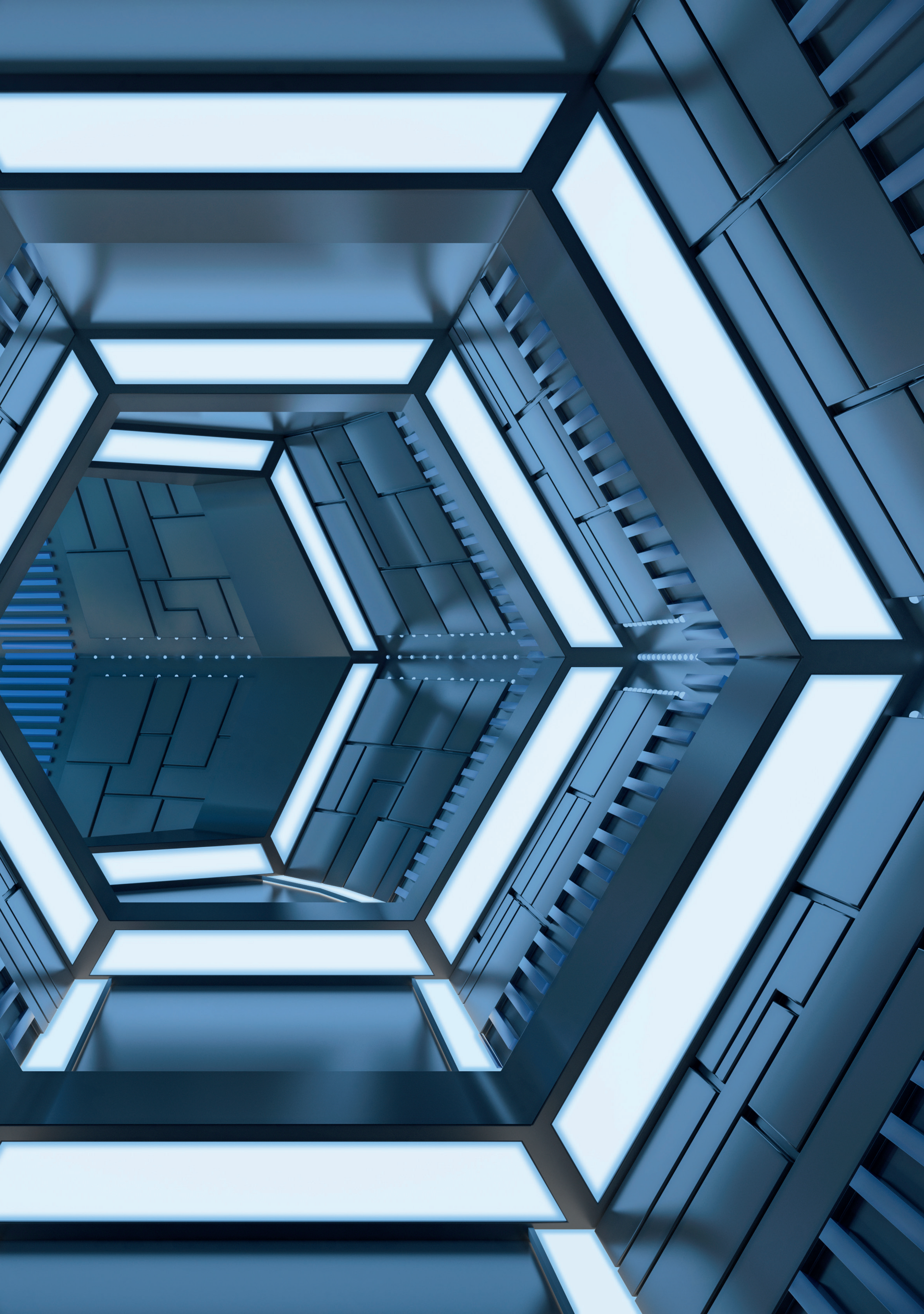
To obtain further information or to request a demo, please contact CGLytics at: getintouch@cglytics.com



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