2021 Corporate Governance and Executive Pay report

Investors' call for ESG measures to support sound remuneration policies

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Diligent Institute

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Dear reader,

We hope you and your family are keeping safe.

Looking back on 2020 - which proved to be a challenging year for many (if not all) companies - our 24th Annual Global CEO Survey revealed that Belgian CEOs are optimistic about the future: 82% believe global economic growth will improve in 2021, 86% are confident about their organisation’s prospects for revenue growth over the next year, and 88% are very confident looking ahead three years. Most (74%) plan to change their long-term investments in sustainability and ESG initiatives over the next three years, as a result of the COVID-19 crisis.

In this report, we have analysed the results of the 2021 annual general meetings of the listed companies based in either Belgium or Luxembourg whose shares are admitted to trading on a regulated market - the ‘Selected Index’. As in previous reports, we have examined the executive remuneration of the Selected Index for the financial year 2020, and the alignment between pay and performance. The boards’ composition has been scrutinised and it has been confirmed that succession planning remains a priority issue.

One of the current hottest topics in corporate governance is ESG (environmental, social, governance), in particular the call from investors to include meaningful and material ESG criteria into short-term or long-term incentive plans. ESG became a business imperative and no longer a ‘nice to have’, since it is increasingly seen as an indicator of future ability to create long-term value and sustainable returns for stakeholders, including shareholders. Linking executive compensation with ESG is a challenging exercise as it requires companies to understand the purpose and practicalities of adding ESG to pay metrics. Finding a balance between making the scorecard sufficiently comprehensive to capture the range of the company’s ESG priorities, but without becoming so complex as to be unmanageable or leading to over-discounted variable pay from the perspective of the beneficiary, is a difficult task.

Corporate governance standards of listed companies may serve as best practice models for unlisted companies. In this respect, Euronext published earlier this year new ESG guidelines for listed companies[1]. The ecoDa Corporate Governance Guidance and Principles for Unlisted Companies in Europe, released in March, may help unlisted companies in defining appropriate governance standards in accordance with their specific needs and challenges. Governance of unlisted companies is also attracting more attention from regulators and stakeholders and can be viewed as a component of a company’s broader ESG strategy. We therefore encourage directors and board members of unlisted companies to reflect on this topic.

We wish you an interesting read and hope that we can provide you with the information you are looking for.

Sincerely,

Christiaan Moeskops
Partner
PwC Belgium

Dottie Schindlinger
Executive Director of Diligent Institute
Diligent Institute

[1] https://www.euronext.com/en/news/esg-guidelines-for-listed-companies

Key findings

> There are decades where nothing happens; and there are weeks where decades happen.
>
> Vladimir Lenin

2021 results of the general meeting

- Under the Act of 20 December 2020, a management board decision is now sufficient to organise the AGM remotely.
- The number of remuneration items has decreased in 2021 compared to last year, however the number is still significantly higher since 2019 following the introduction of the say on pay in the revised shareholders directive (so-called SRD II).
- Companies operating in the financial sector, consumer staples, energy and communication services were more subject to shareholders' dissension than others.
- Shareholder dissension on remuneration items has slightly increased in comparison with 2020 for Belgian listed companies.
- On the other hand, we observed a slight decrease of dissension on remuneration items among board members of listed Luxembourg companies.
- Companies should revise their remuneration policy when a significant proportion of votes has been cast against the remuneration policy and/or the remuneration report. This is the case if 20% or more of votes against from minority shareholders is reached, according to Glass Lewis' continental European guidelines.

(Non) executive compensation

- The most noteworthy difference compared to previous years is the amount of realised LTIs. The average realised LTIs increased by 68% compared to 2019. This may be explained by the multi-year performance period attached to the payout of LTIs, which reflect a pre-pandemic performance cycle.
- The breakdown of CEO pay components based on median figures revealed that the median of realised LTI is actually null. Only 18 CEOs of the Selected Index realised LTI in 2020, which explains this result.
- As a consequence of the pandemic, the base salary of CEOs was reduced.
- Companies that decide on above inflation pay raises, on increases in variable pay, or to implement change to STI and LTI plans should be prepared to thoroughly explain the rationale behind the changes, and the resulting benefits for stakeholders, including shareholders.
- Due to the pandemic, the total shareholder return (TSR) decreased in 2020, with negative TSRs for the lower quartiles.
- This year's data confirmed the growing importance of LTI over STI. This reflects investors' focus on the sustainable and long-term value creation of the company. Further, investors attach importance to linking executive pay with the company's performance.
- Although some stakeholders believed dividends should not be paid out due to the health crisis, more than half of the companies of the Selected Index paid out dividends in 2020, especially companies operating in financial, investment and real estate.

Key findings

ESG

- ESG is getting more and more attention. 45% of directors said ESG issues were regularly part of their board's agenda in 2020, compared to 34% the year before.
- The European Commission adopted a proposal for a corporate sustainability reporting directive (CSRD) on 21 April. This proposal will amend the existing reporting requirements of the non-financial reporting directive (NFRD). The CSRD should be adopted by Member States by the end of 2022.
- Performance is still measured largely against financial criteria. Financial KPIs represent 74% of the weighting of STIs, while it reaches 88% for LTIs. Even though non-financial KPIs typically reflect long-term performance and objectives (especially when linked to sustainability), we observe that they are still more often integrated in STIs. This is likely to change in the future as investors are putting pressure on companies to link LTIs with meaningful and material ESG indicators.
- Including ESG metrics in executive pay packages can be a tangible way to close the 'say/do' gap, but it has its challenges.
- The social aspect of ESG is highly important to companies. It is one of the most frequently used KPIs, which is in line with the observation of our previous report that almost one-third of the non-financial KPIs were about employees' health and safety. However, the weighting of social indicators has gained importance since 2019. The use of environmental and governance KPIs significantly increased in 2020, but their weighting slightly decreased in the last two years.

Diversity in board

- Board composition has become a hot topic with investors, regulators, and others in the governance community, as well as in boardrooms. Many investors and other stakeholders want more information about a company's director nominees, especially information boards, and their nominating and governance committees are considering director tenure, board diversity, and the results of board self-evaluations.
- The European Commission has presented objectives towards a gender-equal Europe in the Gender Equality Strategy 2020-2025. As part of this, a proposal on pay transparency was presented in March with the aim of reducing the gender pay gap.
- ISS EMEA proxy voting guidelines recommend voting against the chair of the nomination committee when the underrepresented sex accounts for less than 30%, or the legal threshold provided in domestic legislation, unless there are mitigating factors, and regardless of the company's size.
- Similar to the observations last year, the average age of board members of the Selected Index is approaching 60 in every sector, confirming the need for succession planning at board level.
- The most represented nationality in the boards of the Selected Index is Belgian, with 41% of board members having Belgian nationality. The observed lack of diversity based on an analysis of nationalities on boards gives us an indicator that the Selected Index may not have achieved racial and ethnic diversity.
- The results of the 2020 PwC annual corporate directors survey show that directors are finding a wide area of expertise in the boardroom less important than they were five years ago.
- Director overboarding is a particular investors' concern. Investors recommend voting against a candidate who already holds an excessive number of board mandates.

Survey information and definitions

This survey includes data from companies that are based in either Belgium or Luxembourg and whose shares are admitted to trading on a regulated market. The sample (hereinafter ‘Selected Index’) comprises listed companies of the Euronext Brussels or LuxX indices based on the composition of these indices as of August 2021.

The Selected Index also comprises some companies of other indices and companies that are no longer listed (or have changed indices) but which still publicly disclose the information as for listed companies.

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

Company name	Location
Altisource Portfolio Solutions S.A.	Luxembourg
Aperam	Luxembourg
ArcelorMittal	Luxembourg
Ardagh Group S.A.	Luxembourg
Aroundtown S.A.	Luxembourg
B&M European Value Retail S.A.	Luxembourg
B&S Group S.A.	Luxembourg
Brederode S.A.	Luxembourg
eDreams ODIGEO, S.A.	Luxembourg
Eurofins Scientific SE	Luxembourg
Global Fashion Group S.A.	Luxembourg
Globant S.A.	Luxembourg
Grand City Properties S.A.	Luxembourg
Intelsat S.A.	Luxembourg
IWG PLC	Luxembourg
Luxempart S.A.	Luxembourg
Reinet Investments S.C.A.	Luxembourg
RTL Group S.A.	Luxembourg
Saf-Holland S.A.	Luxembourg
SES S.A.	Luxembourg
Shurgard Self Storage S.A.	Luxembourg
Socfinaf S.A.	Luxembourg
Socfinasia S.A.	Luxembourg
Tenaris S.A.	Luxembourg

The data included in this survey are information 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 2020 financial year, reference is made to companies ending their financial year on a date after 31 March 2020 or on 31 March 2021. The voting information relates to the annual general meeting (AGM) that took place in 2021.

The following definitions are consistently applied in this publication.

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

Short-term incentive (STI): All cash and equity-based payments accrued to 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 vested/exercised during the financial year for equity-based remuneration).

Long-term incentive (LTI): All cash and equity-based payments accrued to 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 vested/exercised during the financial year for equity-based remuneration).

Total realised compensation (TRC): The total realised compensation is 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 performance period. Most companies 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 2021, but where the performance period ended on 31 December 2020, these shares are included in the realised compensation for financial year 2020. When the company does not disclose the average share price over the last quarter, the company's year-end share price has been used to calculate the value of the vested multi-year share packages.

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

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

Median (50th percentile): 50% of the population earn more, and 50% earn less than this level.

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

In this publication, the statutory positions of chief executive officer (CEO), chief financial officer (CFO) and other executive or non-executive director (OED and ONED respectively) are analysed. Only the key findings are published. Other potentially interesting indicators of executive and non-executive remuneration can be made available via your contact at PwC.

Analysis of the 2021 annual general meeting results

Remuneration-related items

From a sample of 54 companies (the 'Selected Index'), only a few companies had not yet disclosed the AGM's results on their website at the time of the preparation of this report. This concerns: Ardagh Group S.A. and BNP Paribas Fortis S.A./N.V.

In Belgium, the annual general meeting (AGM) should be held - in principle in the form of a physical meeting - within six 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. However, during the pandemic, in which physical contact needed to be limited as much as possible, holding an AGM was not easy. In the absence of clear legislative framework, the federal government introduced some temporary measures in 2020 by means of Royal Decree no. 4, in order to take into account the difficulties encountered by the administration in the organisation of the AGM. This Royal Decree is no longer in force. However, with the Act of 20 December 2020, the legislator has finalised the rules allowing the managing body to organise an AGM remotely[2].

AGM results

In this section, the terms 'remuneration items' or 'remuneration-related items' refer to both the shareholders' vote on remuneration policy and the remuneration report.

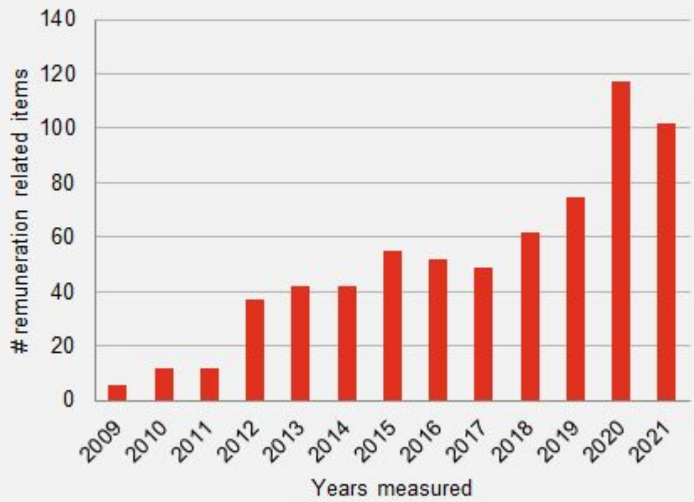
Remuneration items at the agenda

The number of resolutions related to remuneration items has increased over the years, and 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 compared to 2019 (around 75 in 2019 vs 117 in 2020). For 2021 there is a small decrease in the number of remuneration items (around 102 in 2021 vs 117 in 2020)[3], but this is still a significant increase compared to 2019.

This trend can be explained by the say on pay introduced by the revised shareholders' rights directive (SRD II). For Belgian listed companies that closed their financial year on 31 December 2020, the first binding vote on the remuneration policy took place at the 2021 AGM. It was to be the first shareholders' vote on their remuneration policy after assessing whether such policy was compliant with the Belgian Code on Companies and Associations, and the measures adopted in the 2020 Belgian Corporate Governance Code.

The vote on the remuneration report of Belgian listed companies remains advisory. However, SRD II requires enhanced disclosure and content requirements. These requirements deal particularly with the disclosure of compensation of all directors on an individual basis, and the comparison of directors' pay changes with the evolution of employees' remuneration on a full-time equivalent basis during at least the last five financial years (i.e. a kind of 'pay equity assessment'). Companies are also required to explain how the previous shareholder vote has been taken into account, and how pay aligns with company performance.

Number of remuneration related items (2021)



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[2] Articles 5:89; 6:75; 7:137; 9:16/1; and 10:7/1 of the Belgian Code on Companies and Associations.

[3] The data underlying this graph are sourced from the AGMs of the Selected Index, as indicated in this report. This explains the discrepancy in the figures if the reader compares it with the 2020 report, as the Selected Index of last year was composed of different companies. Certain companies have been added to the Selected Index this year.

The Corporate Governance Committee released an explanatory note on the remuneration report[4], which establishes guidance to assist listed companies in the application of the remuneration report regulations resulting from Article 3:6, §3 of the Belgian Code on Companies and Associations.

Shareholders' revolt (2021)

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 Belgian and Luxembourg listed companies of the Selected Index.

Based on the sample surveyed, the data reveal that since 2016 Belgian companies were more affected by shareholder revolt on remuneration-related items than Luxembourg companies were.

The percentage of votes against changed between 10% and 13% for Belgian listed companies between 2016 and 2021, but they remained relatively stable despite the increase in the number of remuneration items submitted to the vote.

For Luxembourg listed companies, the percentage of votes against varied between 1% and 3% between 2016 and 2019, however, showing an increase of up to 12% in 2020. For 2021 the percentage of votes decreased slightly to 10%. This observation for the past two years can be explained by the fact that some Luxembourg listed companies (2) of the sample had no remuneration item on their AGM's agenda in the past.

Proportion of for/ against/ abstain votes on remuneration items (Belgium)

Belgian Listed Companies	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
% abstain	0%	0%	0%	6%	1%	1%	0%	0%	0%	0%	0%	1%	1%
% against	2%	2%	8%	7%	1%	1%	1%	12%	10%	10%	12%	12%	13%
% for	97%	98%	92%	87%	97%	98%	99%	88%	90%	90%	87%	87%	86%

% for % against % abstain

Proportion of for/ against/ abstain votes on remuneration items (Luxembourg)

LuX Listed Companies	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
% abstain	3%	2%	0%	1%	1%	0%	0%	0%	1%	1%	0%	1%	2%
% against	0%	0%	0%	5%	2%	1%	1%	1%	2%	1%	3%	12%	10%
% for	97%	98%	99%	93%	97%	99%	98%	99%	97%	98%	97%	87%	89%

% for % against % abstain

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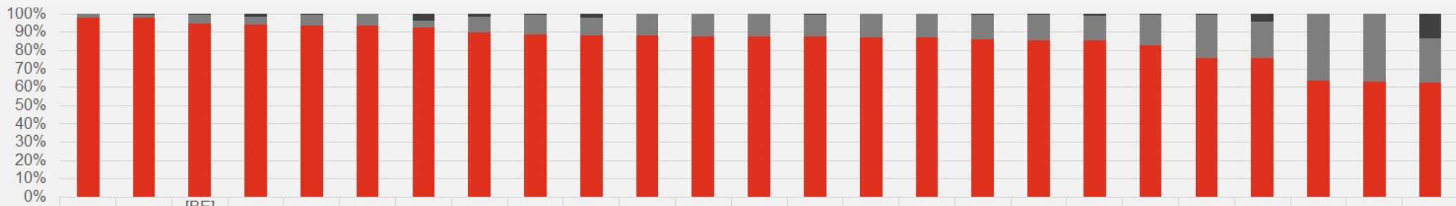
[4] The explanatory note can be found here: https://www.corporategovernancecommittee.be/en/explanatory-notes-2020-code/explanatory-note-remuneration-report

The following graph shows the proportion of votes for or against, as well as the abstention on remuneration items during the 2021 AGMs of Belgian listed companies. Shareholders of Ontex Group N.V. voted on the remuneration policy and the remuneration report of the company. The latter was approved, but with 47% votes against, while only 2.1% voted against the remuneration policy. The Ontex Group N.V. remuneration report was also approved during the extraordinary general meeting on 19 May 2021 despite 36.38% votes against (only 37.87% of shares were represented though). The remuneration policy and remuneration report of argenx SE were approved with around 76.5% votes for and around 23.5% votes against. The shareholders' meeting of Galapagos N.V. resolved to approve the remuneration report (63.12% of votes for and 36.85% of votes against). The remuneration policy of Galapagos N.V. was not subject to the vote of shareholders at the 2021 AGM as it was approved by the shareholders at the 2020 AGM.

According to the 2021 Belgian voting guidelines released by Glass Lewis, companies should take action to address shareholders' concerns expressed at the AGM. In particular, they should consider revising the remuneration policy when a significant proportion of votes have been cast against it - i.e. 20% or more of votes against from minority shareholders, in line with Glass Lewis's continental European guidelines.

Proportion of for/ against/ abstain votes on remuneration items (Belgium)



	[BE] Sofina Société Anonyme	[BE] Melexis NV	[BE] Warehouses De Pauw Comm. VA	[BE] Befimmo SA	[BE] Umicore S.A.	[BE] UCB S.A.	[BE] Aedifica SA	[BE] Orange Belgium S.A.	[BE] D'Ieteren SA	[BE] Groupe Bruxelles Lambert SA	[BE] Elia System Operator SA	[BE] KBC Group NV	[BE] Telenet Group Holding NV	[BE] Proximus PLC	[BE] NV Bekaert SA	[BE] Solvay SA	[BE] Cofinimmo S.A.	[BE] bpost SA/NV	[BE] Barco NV	[BE] Anheuser-Busch InBev SA/NV	[BE] argenx SE	[BE] Ackermans & Van Haaren NV	[BE] ageas SA/NV	[BE] Galapagos NV	[BE] Ontex Group N.V.
% abstain	0%	0%	1%	1%	0%	0%	4%	2%	0%	2%	0%	0%	0%	1%	0%	0%	0%	0%	1%	1%	1%	4%	0%	0%	13%
% against	2%	2%	5%	5%	6%	6%	4%	8%	11%	10%	12%	12%	12%	12%	13%	13%	14%	14%	13%	16%	23%	20%	36%	37%	24%
% for	98%	98%	95%	94%	93%	93%	92%	90%	89%	88%	88%	88%	88%	88%	87%	87%	86%	86%	86%	83%	76%	76%	64%	63%	62%

Belgian Listed Companies

% for % against % abstain

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The following graph shows the proportion of votes for or against, as well as the abstention on remuneration items during the 2021 AGMs of Luxembourg listed companies. Most of the companies have seen their remuneration policy and remuneration report approved without shareholder revolt. An exception is the remuneration report of Grand City Properties S.A., which was approved, but with 33% of votes against. The remuneration report and remuneration policy of Aroundtown S.A. were approved despite 53% of votes against.

The pie chart below shows the allocation of total votes against remuneration-related items by sector.

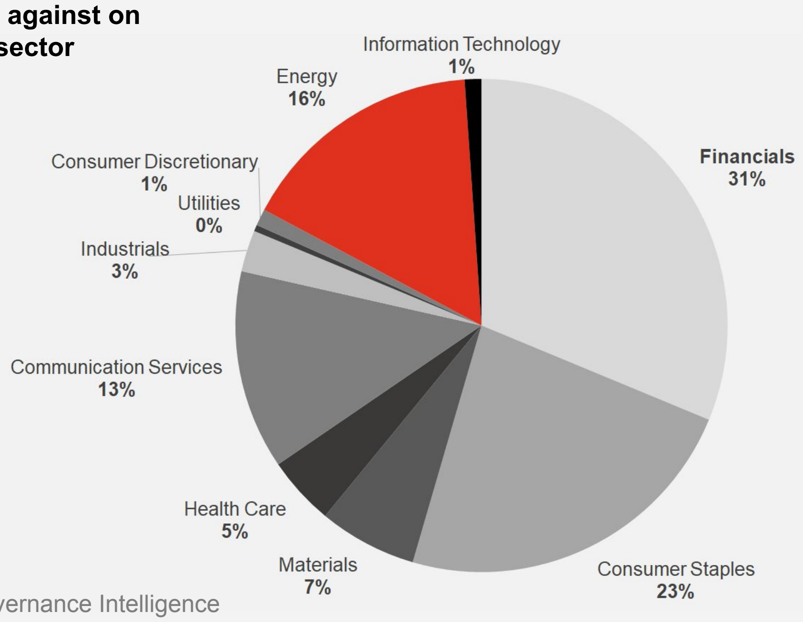
The result is similar to last year, when companies operating in the financial sector, consumer staples, energy, and communication services were more subject to shareholders' dissension than others.

The financial sector includes the following industries: diversified financials, insurance, banks, real estate, and capital markets. Companies active in the sector of consumer staples are Anheuser-Busch InBev S.A./N.V., Etn Fr Colruyt N.V., Ontex Group N.V., Socfinaf S.A. and Socfinasia S.A. Companies active in the sector of communication services are Intelsat S.A., Orange Belgium S.A., Proximus PLC, RTL Group S.A., SES S.A. and Telenet Group Holding N.V. Note that the energy sector is only represented by Tenaris S.A.

Proportion of for/ against/ abstain votes on remuneration items (Luxembourg)

	[LU] Global Fashion Group S.A.	[LU] Brederode SA	[LU] Luxempart S.A.	[LU] Socfinasia S.A.	[LU] Saf-Holland S.A.	[LU] IWG PLC	[LU] Altisource Portfolio Solutions S.A.	[LU] Socfinaf SA	[LU] Globant S.A.	[LU] Aperam	[LU] RTL Group SA	[LU] ArcelorMittal	[LU] B&S Group S.A.	[LU] Tenaris S.A.	[LU] SES S.A.	[LU] Eurofins Scientific SE	[LU] Intelsat S.A.	[LU] Grand City Properties S.A.	[LU] Aroundtown SA
% abstain	0%	0%	0%	0%	0%	0%	0%	2%	4%	1%	0%	5%	0%	0%	0%	0%	7%	0%	0%
% against	0%	0%	0%	0%	0%	2%	2%	0%	0%	5%	6%	2%	8%	10%	11%	19%	19%	33%	53%
% for	100%	100%	100%	100%	100%	98%	98%	98%	95%	94%	94%	93%	92%	90%	89%	81%	74%	67%	47%

Proportion of total votes against on remuneration items per sector (2021)



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4 The explanatory note can be found here: https://www.corporategovernancecommittee.be/en/explanatory-notes-2020-code/explanatory-note-remuneration-report

Executive remuneration

Compensation design

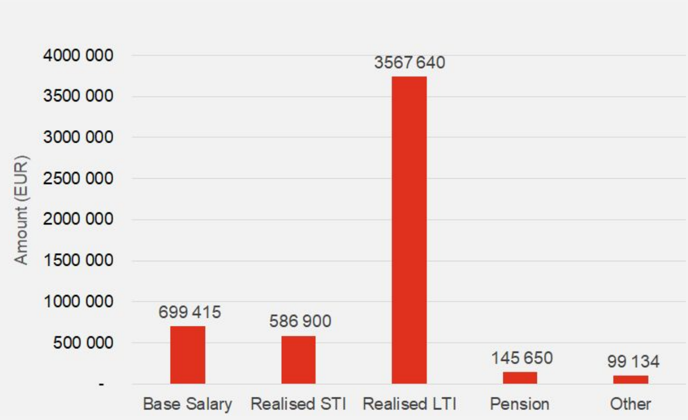
CEO pay components

CEO pay is usually composed of a mix of base pay, bonuses (short-term incentives), long-term incentives, benefits (e.g. pension plan) and perquisites (e.g. company car, smartphone). The graph below shows the average amounts allocated to the different elements of CEO compensation for the Selected Index in 2020 compared to 2019. While the base salary remained stable in 2019 compared to 2018, it was reduced significantly in 2020. The drop of the base salary may be explained by the adjustments to the executive remuneration as a result of the pandemic[5].

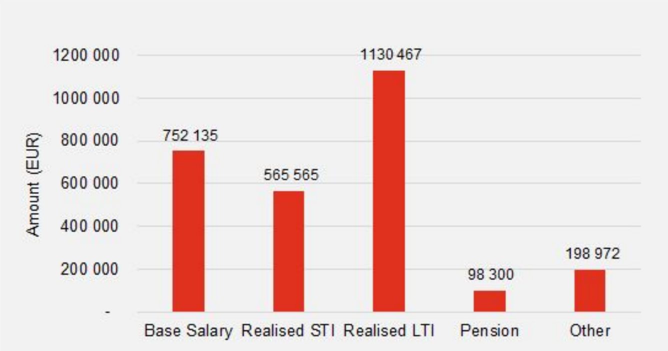
The most noteworthy difference in 2020 compared to previous years is the amount of realised LTIs. With an average of €3,567,640 for the Selected Index, the realised LTIs increased by 68% compared to the average realised LTIs of 2019. This may be linked to the multi-year performance period, typically three years, attached to the realised LTI, which therefore refers to a pre-pandemic performance.

This significant increase in the proportion of realised LTIs in the CEO compensation package may, however, largely be attributed to the realised LTIs of three outliers of the Selected Index: Anheuser-Busch Inbev S.A./N.V. (€92,4m), Argenx SE (€33,8m), and Sofina Société Anonyme (€13,5m). No other CEOs from the Selected Index realised LTIs worth more than €10m in 2020. When removing the three outliers from the sample, the average realised LTI in 2020 falls to €3,5m, which is still higher than the average realised LTI of 2019. The median realised LTI in 2020 is displayed as zero which is due to the fact that several CEOs of the Selected Index did not realise any LTI at all (see the graph later in the report).

Average CEO pay components for 2020



Average CEO pay components for 2019



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[5] The reader is referred to the next section of the report.

The remuneration package of an executive should reflect the responsibilities and the complexity inherent in the position and be competitive in comparison to other similar positions in the market. The following table provides an overview of the tendencies observed per quartile in 2020. As in previous years, the data seem to confirm that CEO pay is mainly driven by market cap and the size of the company. This is logical, as both often imply larger responsibilities and a higher level of complexity.

As may be expected given the difficulties lots of companies have been facing due to the health crisis, the total shareholder return (TSR) decreased in 2020, with negative TSRs for the lower quartiles. Not surprisingly, the average market cap, revenue and net income are lower in 2020 than they were in 2019[6]. The granted pay follows this downward trend, being slightly lower in 2020 compared to 2019.

More surprising, however, is that the realised pay is significantly higher in 2020. This is however reflecting the realised LTIs in 2020.

The graphs on page 12 and below tables show the average CEO realised pay.

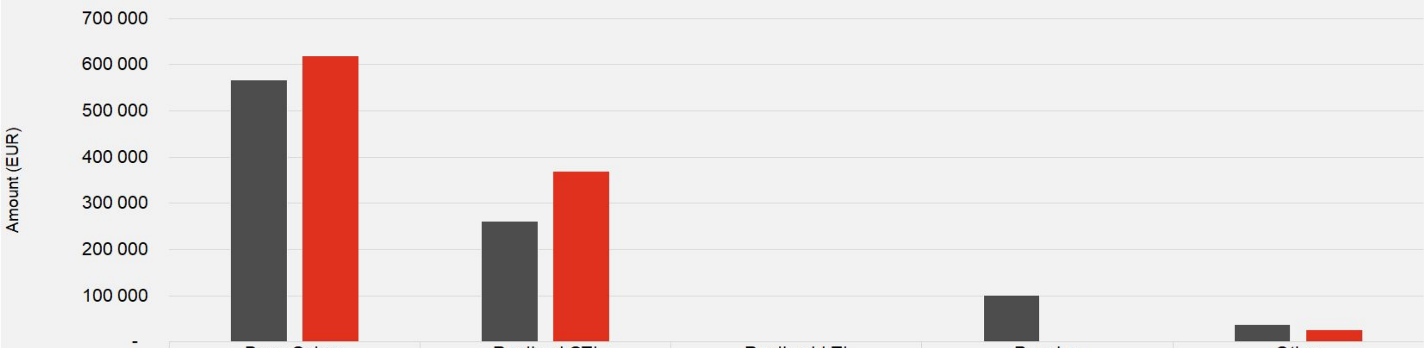
When looking at the median CEO pay components, the results are drastically different, especially with respect to the realised LTI. Only 18 CEOs of the Selected Index realised LTI in 2020, which explains why the median is null. The median realised STI is also much lower than the average one, especially for Belgian companies.

2019	Market Cap in EUR	Employees in #	Revenue in EUR	Asset base in %	Net income in EUR	TSR in EUR	CEO granted pay in EUR	realised pay in EUR
25%	1 502	1 003	541	1 961	43	7%	805 918	795 375
50%	3 793	3 924	1 981	4 482	166	26%	1 637 000	1 605 536
75%	7 866	16 340	4 825	10 952	430	44%	5 134 039	3 319 458
90%	12 967	30 901	9 021	64 220	1 134	82%	6 362 283	5 331 978
Average	7 945	16 614	5 089	26 436	420	28%	3 126 858	2 745 440

2020	Market Cap in EUR	Employees in #	Revenue in EUR	Asset base in %	Net income in EUR	TSR in EUR	CEO granted pay in EUR	realised pay in EUR
25%	1 537	1 031	451	2 062	-16	-21%	956 004	935 000
50%	3 602	3 369	1 869	4 925	117	-8%	1 374 077	1 279 135
75%	7 771	19 028	5 201	11 126	335	13%	3 890 000	2 791 967
90%	12 531	33 781	8 931	56 261	739	43%	7 436 344	6 714 189
Average	7 246	18 894	4 429	26 810	172	4%	2 997 572	5 098 740

6 The data of 2019 and 2020 are sourced from the publicly available information of the Selected Index, as indicated in this report. This explains the discrepancy of the 2019 figures if the reader compares it with the one of the 2020 report, as certain companies have been added to the Selected Index.

Median CEO pay components for 2020



	Base Salary	Realised STI	Realised LTI	Pension	Other
[BE] Companies	566 700	262 125	-	100 500	38 499
[LU] Companies	618 000	367 719	-	-	26 453

[BE] Companies [LU] Companies

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Evolution of base salary, STI and LTI: the prevalence of long-term incentives over short-term incentives is confirmed

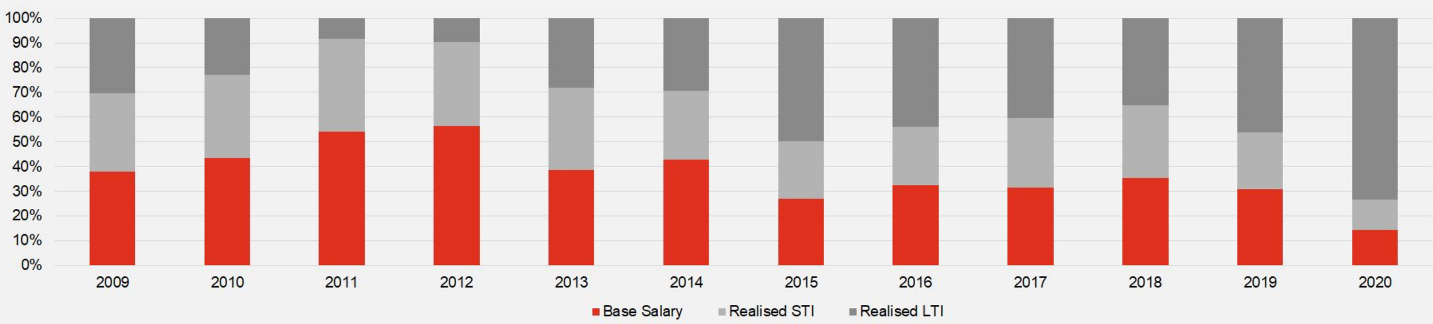
Executive remuneration is usually composed of a mix of fixed and variable pay components. The fixed part includes the base salary, pension benefits and other benefits (company car, health plan, etc.). The variable part comprises short-term incentives (STIs) and long-term incentives (LTIs). The latter are meant to support the company's sustainability and long-term performance.

Over the past few years, focus on sustainable and long-term value creation has been growing. This is reflected in the growing importance of LTIs and the relative decline in the importance of STIs. As can be seen in the graph below, this tendency is especially accentuated in 2020, where LTIs represented up to 73% of total compensation, compared to STIs making up only 14%.

The fact that LTIs make up a significantly higher percentage of the total remuneration in 2020 compared to previous years may partially be explained by the salary pay cut decided in the context of the pandemic[7], while the performance conditions of LTIs paid out in 2020 refer to a pre-pandemic situation, typically the preceding three-year period (2017-2019). More specifically, the increase of LTIs in 2020 can also be attributed to the exercise of options by the (former) CEO of Anheuser-Busch InBev S.A./N.V. and Sofina Société Anonyme.

In Belgium, neither the Belgian Companies and Associations Code nor the SRD II set a cap on the variable part of remuneration. The 2020 Belgian Corporate Governance Code does, however, provide such a cap on STIs, reinforcing the tendency for variable pay to be made out mostly of LTIs.

Evolution of base salary, STI and LTI (2009-2020) - all sectors*



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** All companies in the Selected Index are included apart from Ardagh Group S.A., Globant S.A., Reinet Investments S.C.A., Socfinaf S.A. and Socfinasia S.A., as these companies did not disclose compensation data for the CEO position.*

[7] Cf. the section on 'Remuneration reactions (COVID-19)' in our previous report.

Companies operating in the bank and insurance sector are subject to additional restrictions on remuneration of 'identified staff' - staff whose professional activities have a material impact on the company's risk profile - prohibiting excessive variable pay. 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 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. These policies result in a variable component that is lower than in other sectors, but base salaries that are significantly higher.

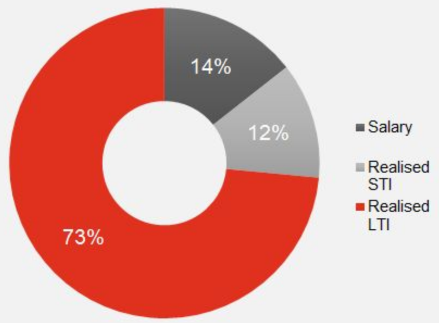
While the proportion of LTI (on average) gained importance compared to last year for all sectors (from 48% in 2019 to 73% in 2020), CEOs of companies in the bank and insurance sector of the sample did not realise any LTI in 2020.

This may be explained by the recommendations of supervisory authorities to set the pay out of variable pay at a conservative level, and to defer a larger part of the variable remuneration for a longer period, or pay out a larger proportion in equity instruments.

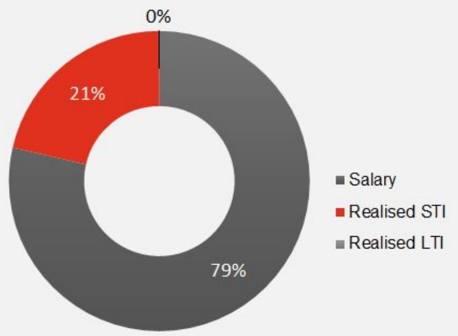
Members of the executive and management committee of Ageas S.A./N.V. benefit from a long-term incentive plan (LTI) by means of the grant of performance shares which vest after a period of 3.5 years. After vesting, the shares have to be held for an additional 1.5 years (five years in total as of date of grant). As no LTI plan was granted in 2016, no plan vested in 2020. However, a grant was made in 2020, given the business score of the company.

No variable remuneration was granted to the CEO or the executive vice-presidents of Dexia S.A. in 2020. Further, no option plan has been granted or exercisable since 2009.

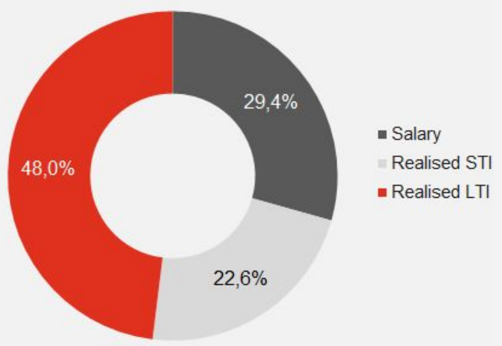
Proportion of base salary, STI and LTI (2020) - all sectors*



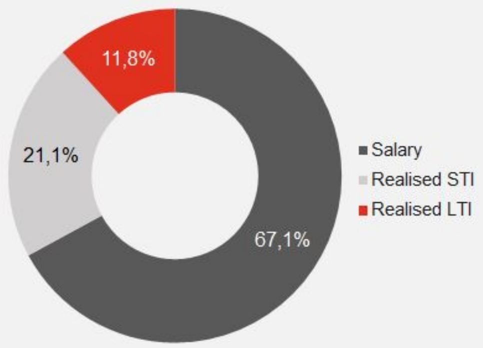
Proportion of base salary, STI and LTI (2020) - Bank & Insurance**



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



Proportion of base salary, realised STI and realised LTI (2019) - Bank & Insurance**



** All companies of the Selected Index are included, apart from Ardagh Group S.A., Globant S.A., Reinet Investments S.C.A., Socfinaf S.A. and Socfinasia S.A, as these companies did not disclose compensation data for the CEO position.*
*** Companies included in the bank and insurance graph are Ageas S.A./N.V., Dexia S.A., KBC Group N.V., BNP Paribas Fortis S.A./N.V.*

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Incentive plans

Short-term and long-term incentives (STI/LTI)

The Belgian Code on Companies and Associations stipulates that one quarter of the variable remuneration must be based on performance criteria evaluated over a period of at least two years, and another quarter over a period of at least three years if the variable remuneration of a director exceeds one quarter of his or her total remuneration. Shareholders may decide to waive this requirement at the general meeting. Otherwise, an amendment of the company's articles of association may also deviate from this requirement[8].

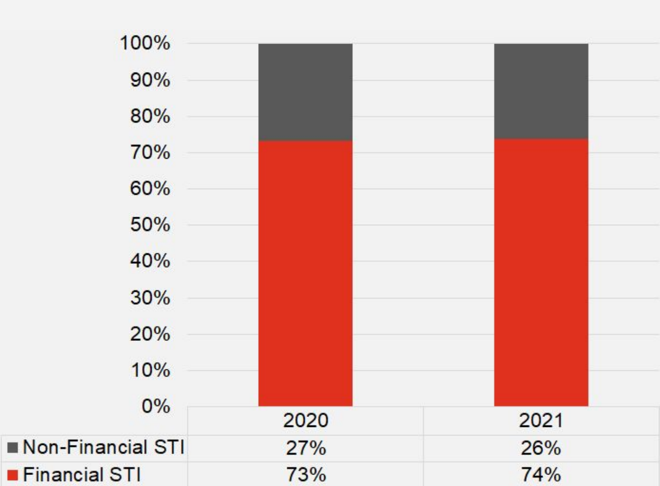
The vesting period for equity-based incentives within the Selected Index remained the same as in previous years, being three years on average. This observation is in line with the requirement under Belgian law to have a minimum vesting period of three years for equity-based incentives unless otherwise provided for by the company's articles of association, or waived at the AGM[9]. The 2021 voting guidelines of Glass Lewis recommend voting against any proposal that aims to waive the legally required vesting requirements.

Granting stock option plans is popular in Belgium due to the taxation regime set in the law dated 26 March 1999. Under these conditions, stock options are taxed at the grant date, meaning that such plans are not subject to performance conditions. While Glass Lewis's 2021 Belgian voting guidelines do not recommend voting against the remuneration report solely because no performance conditions are attached to STI and LTI for small and mid-cap companies, the recommendation is different for companies listed on the BEL20 index.

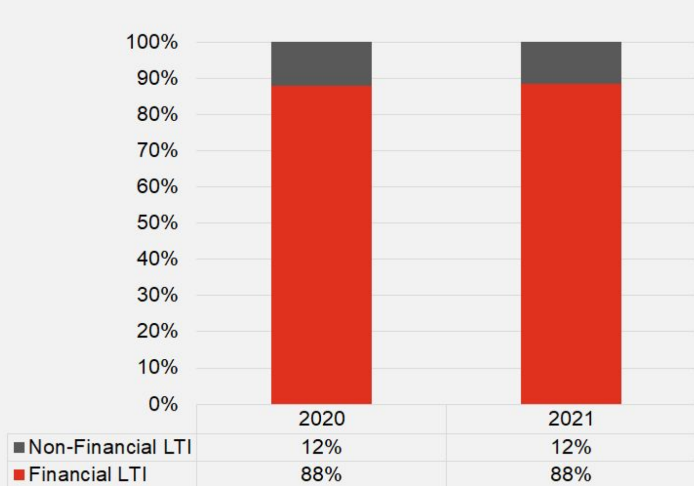
Key performance indicators (KPIs)

The relative weighting of financial and non-financial KPIs remains comparable to previous years, with financial KPIs still representing at least two-thirds of the weighting for STI and LTI plans. For STIs, financial KPIs represent 74% of the weighting, while it reaches 88% for LTIs. Even though non-financial KPIs typically reflect long-term performance and objectives (especially when linked to sustainability), we observe that they are more often integrated in STIs.

Financial/Non-Financial weighting ratio for STI plans



Financial/Non-Financial weighting ratio for LTI plans



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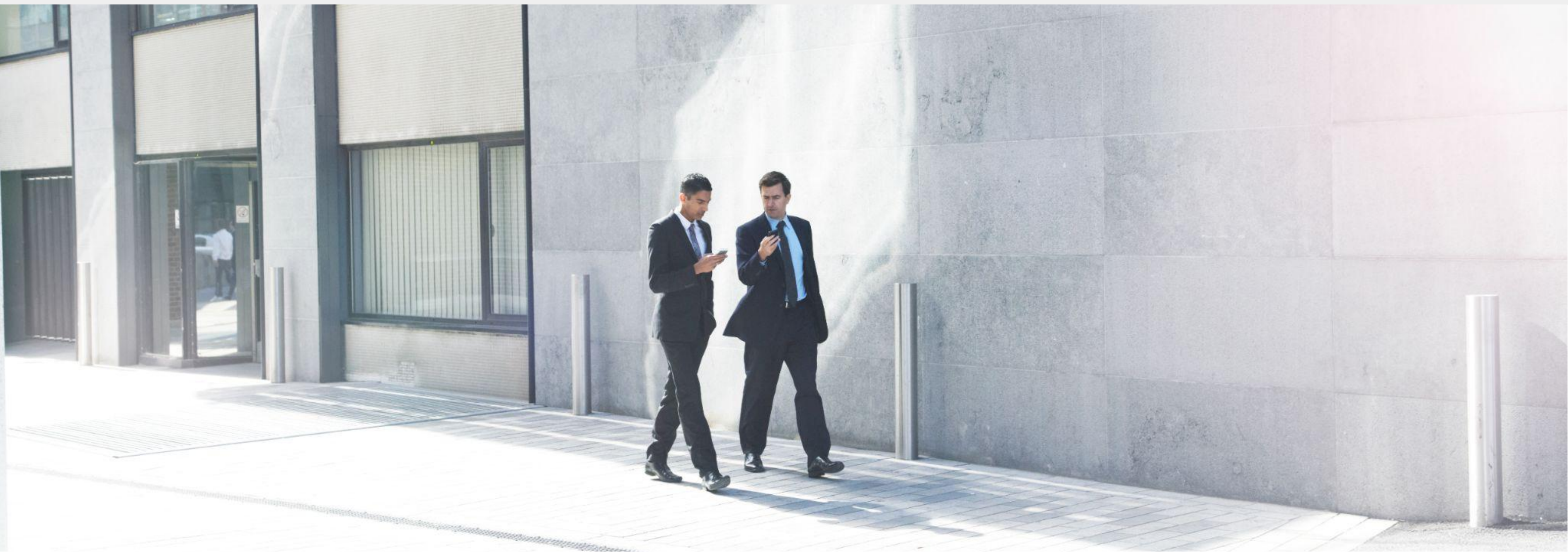
[8] Article 7:91 of the Belgian Code on Companies and Associations
[9] Article 7:91 of the Belgian Code on Companies and Associations

The table below shows the top five financial and non-financial KPIs used in STIs and LTIs. These common KPIs are mostly unchanged from last year. It is worth noting the rise in importance of the non-financial KPIs ‘Sustainability’ and ‘Environment’ (respectively from third to second place for STIs and from third to first place for LTIs).

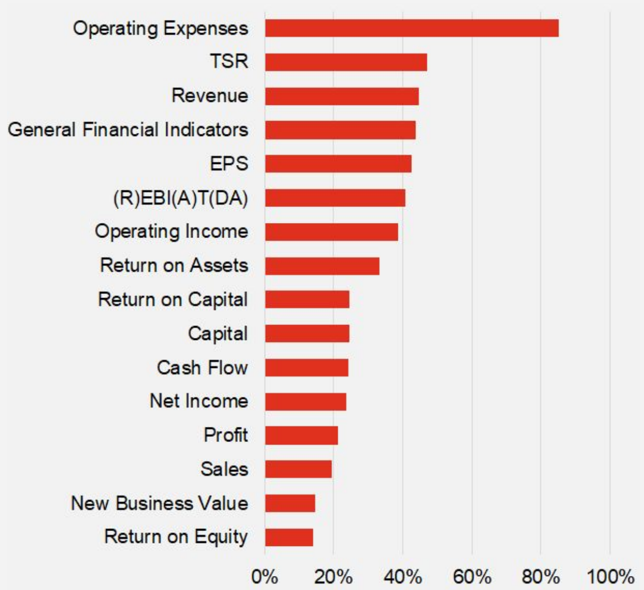
Top five KPIs for STIs	
Financial KPIs	Non-financial KPIs
1. (R)EBI(A)T(DA)	1. Operational objectives
2. Cash flow	2. Sustainability
3. General financial indicators	3. Customer satisfaction
4. Revenue	4. Environment
5. Capital	5. Employee satisfaction

Top five KPIs for LTIs	
Financial KPIs	Non-financial KPIs
1. TSR	1. Environment
2. EPS (earnings per share)	2. Individual performance
3. (R)EBI(A)T(DA)	3. Corporate responsibility and governance
4. Cash flow	4. Strategic objectives
5. General financial indicators	5. Customer satisfaction



Whereas the table above shows the most commonly used financial and non-financial KPIs for STIs and LTIs by the Selected Index, the weighting of such KPIs based on the companies' remuneration policies may differ significantly. The following charts show the average weighting used for the KPI within the Selected Index, using the average weightings the companies assign to it.

Financial KPI average weighting for STI plans - 2021



Non-Financial KPI average weighting for STI plans - 2021

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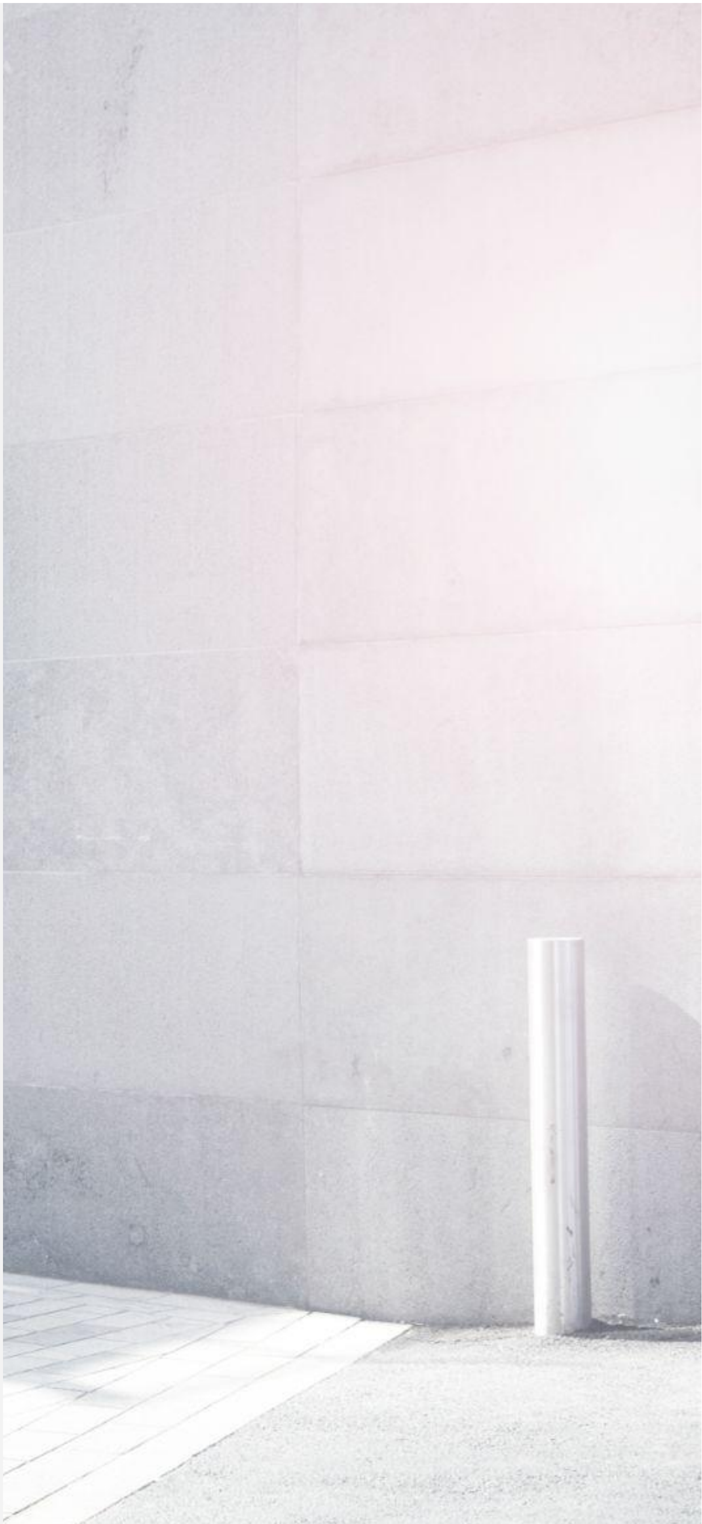
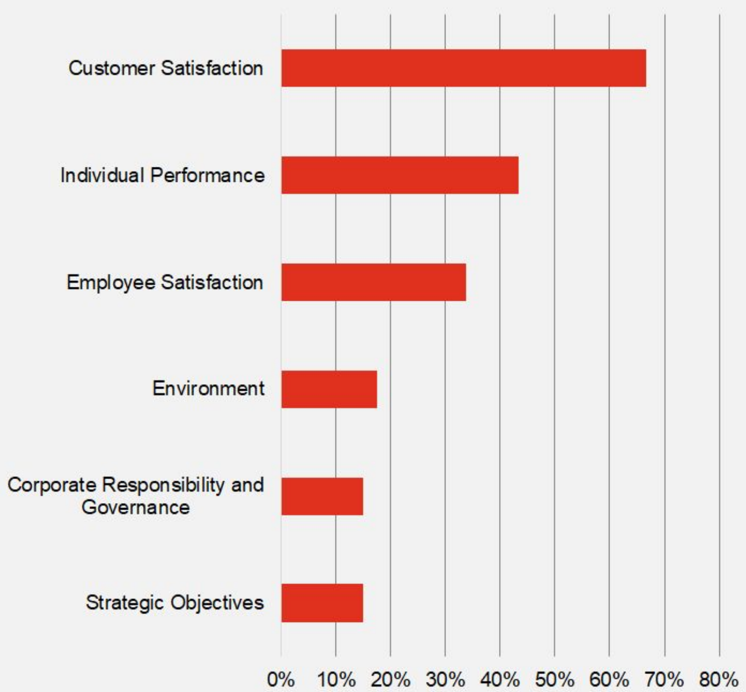


Financial KPI average weighting for LTI plans - 2021

Non-Financial KPI average weighting for LTI plans - 2021



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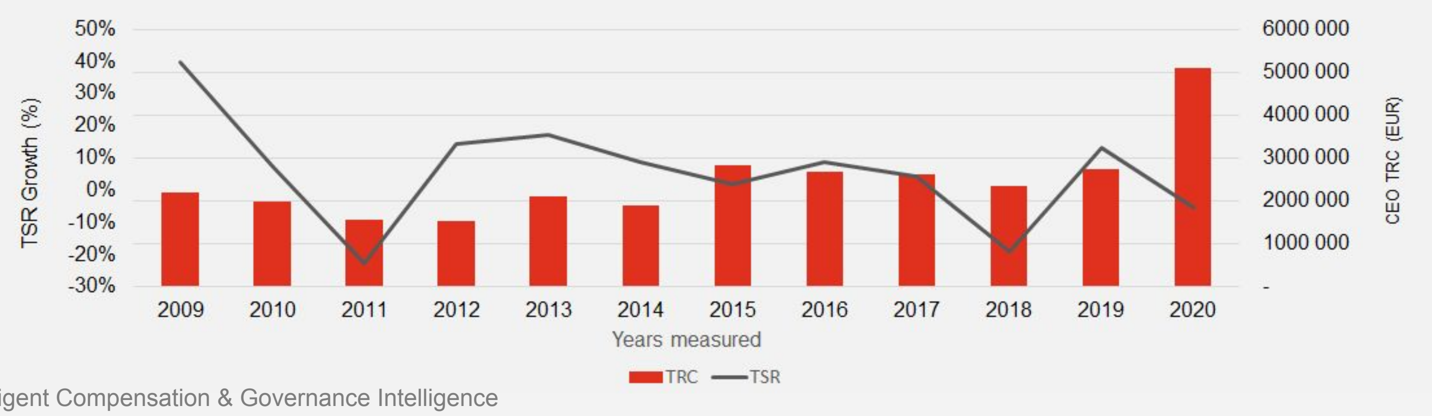
Pay for Performance (P4P)

The graph below shows the evolution of total shareholder return (TSR) compared to the total realised compensation (TRC) of CEOs of the Belgian companies in the Selected Index.

As expected, the growth of TSR has been heavily affected by the impact of the health crisis on economic and business activities. More surprising, however, is the mismatch between the significant drop of TSR growth and the relatively high TRC. Again, the explanation may lie in the realisation of LTIs in 2020, which reflect the exercise of options by certain CEOs of the Selected Index.

Pay vs TSR: Absolute Growth



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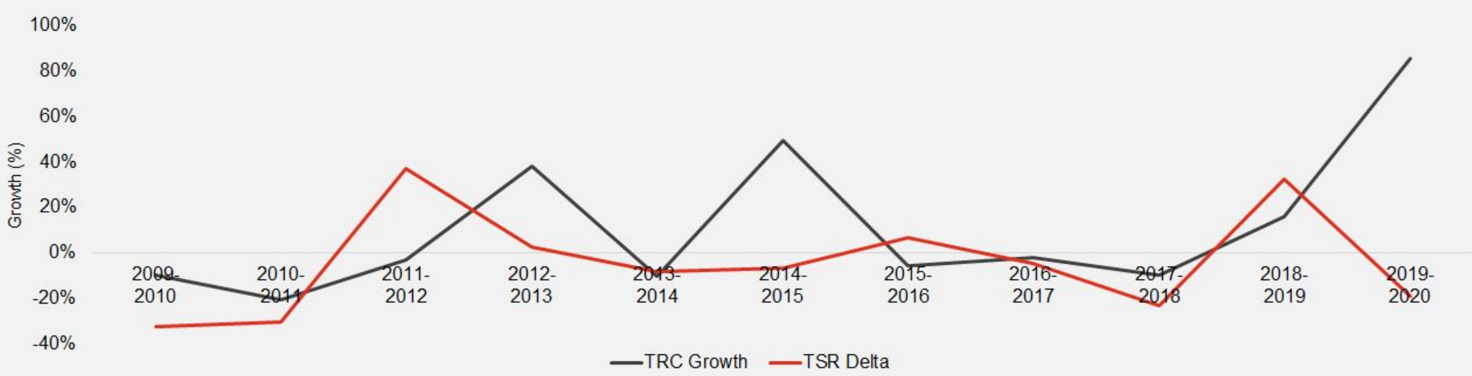
In terms of relative growth, the graph below shows the same tendency as the absolute growth.

TRC vs TRS: Relative Growth



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P4P alignment

Diligent Compensation and Governance Intel (CGI) P4P analysis includes all companies in the Selected Index except for Ardagh Group S.A., Brederode S.A., Etn Fr Colruyt N.V. S.A., Globant S.A., Luxempart S.A., Reinet Investments S.C.A., Socfinaf S.A., Socfinasia S.A. and WABCO Holdings Inc. as they do not have performance or compensation data disclosed for the CEO position for all the years 2018-2020.

Pay for performance review: 2020

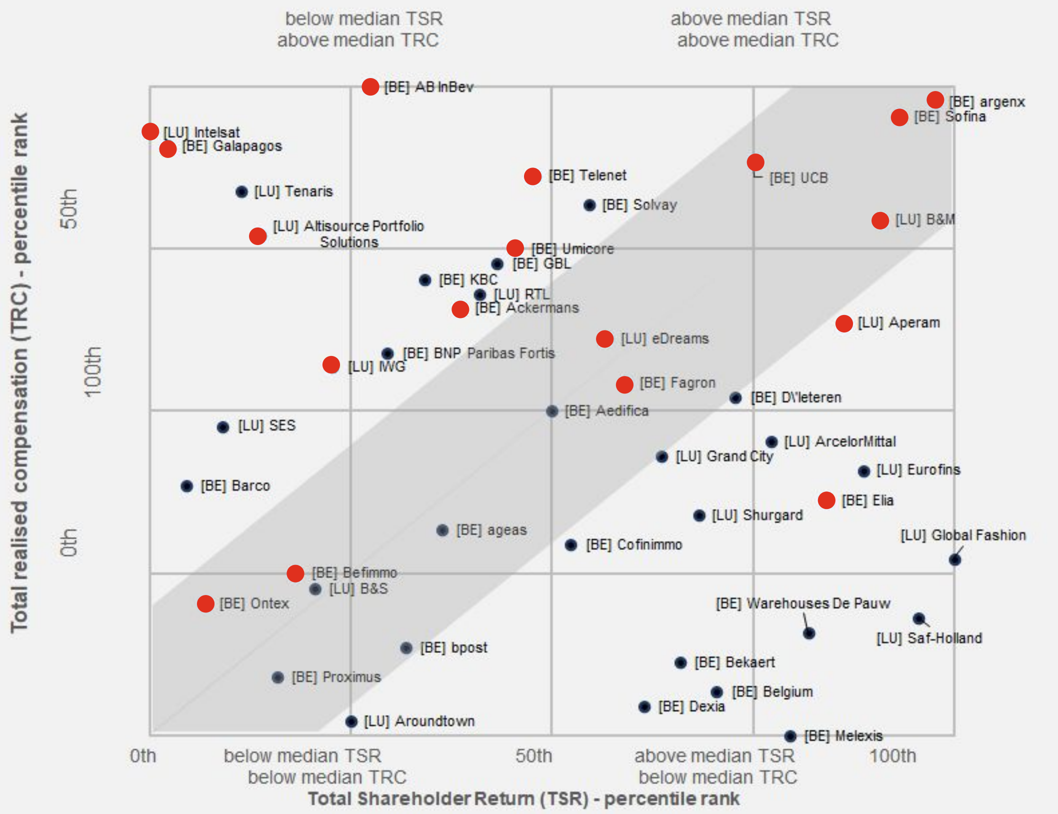
- 29% of companies display good P4P alignment
- 36% of companies are conservative in their pay practices
- 36% of companies display P4P misalignment

The following companies had no LTI plan in 2020: bpost S.A./N.V., Etn Fr Colruyt N.V., Elia System Operator S.A., KBC Group N.V., Melexis N.V., and Shurgard Self Storage S.A.

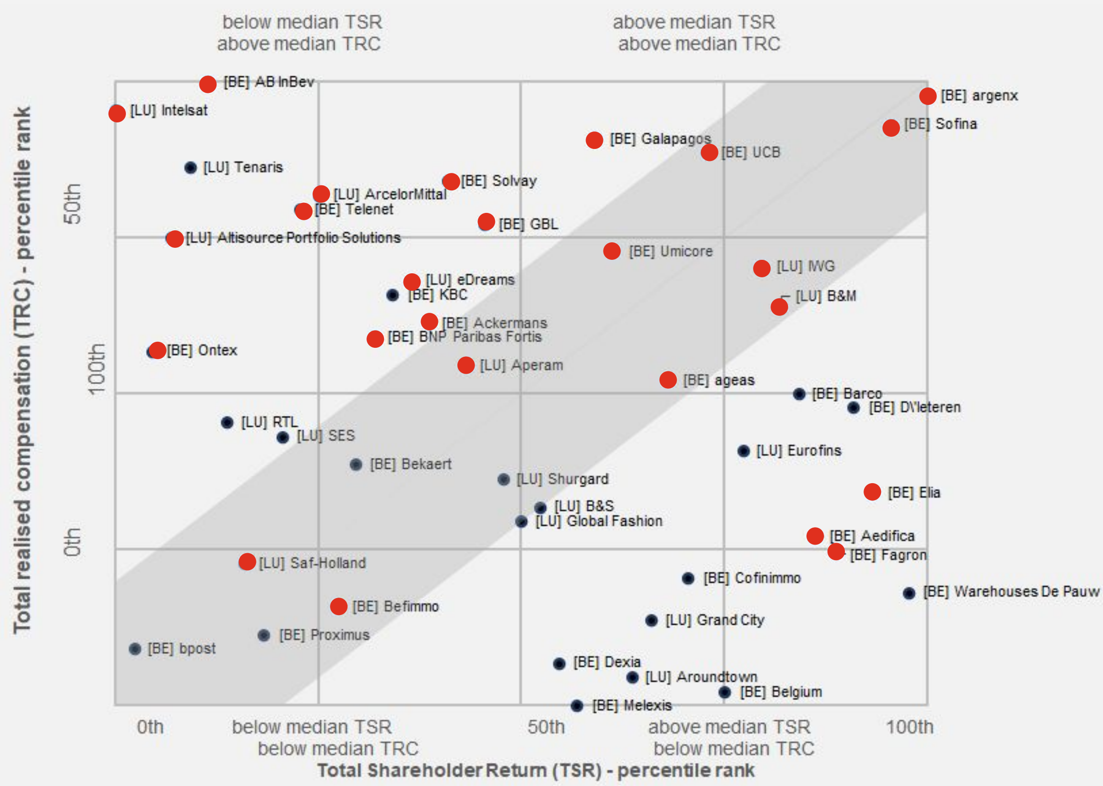
Companies highlighted in orange in the P4P graphs are companies with realised LTI in 2020 or companies with realised on an aggregated level for 2018-2020. This means that there is realised LTI for at least one year during the three-year study.

Reference is also made to Appendix 1 ‘Diligent Compensation & Governance Intelligence CEO P4P overview’.

Diligent Compensation & Governance Intelligence 2020 Pay for Performance alignment



Diligent Compensation & Governance Intelligence 2018-2020 Pay for Performance alignment



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Reference is also made to Appendix 1 ‘Diligent Compensation & Governance Intelligence CEO P4P overview’.

Environmental, social and governance (ESG)

ESG stands for ‘environment, social and governance’, three factors used to analyse the sustainability and social impact of companies. It includes environmental issues such as climate change, natural resource management, etc., social issues like labour practices, employees’ health and safety, and customer satisfaction. It also covers governance matters, including board diversity, executive pay, and tax transparency. It is worth noting that a broad variety of topics and concerns can fall under the three ESG categories. However, not all of them will be of equal importance or relevance for every company (socially or financially).

ESG is as important to companies as it is to external stakeholders (including investors, consumers, suppliers, etc.) since they are increasingly applying these non-financial factors as part of their analysis process to identify material risks and growth opportunities. It is becoming more and more common for investors to align their investments with their values instead of simply considering the potential profitability and/or risk presented by an investment opportunity. In other words, ESG is becoming increasingly important for investors evaluating companies in which they might decide to invest, as it can represent risks and opportunities that will impact a company’s ability to create long-term value.

As shown in the 2020 Annual Corporate Directors Survey, it is also a matter that is being more frequently brought up in the boardroom. We note that 45% of directors said ESG issues were regularly part of their board’s agenda in 2020, compared to 34% the year before. Also, 51% of directors say their board fully understands ESG issues impacting the company. However, only 38% think those issues actually have a financial impact on the company.

ESG matters are also important for internal stakeholders, such as employees and potential new hires, given the fact that the younger generation of new talent tends to take into account their potential employers’ position regarding environmental and social issues.

ESG reporting requirements

Some elements of ESG are already incorporated into mandatory reporting regimes. Directive 2014/95/EU, also called the non-financial reporting directive (NFRD), lays down the rules on disclosure of non-financial and diversity information by large public-interest companies with more than 500 employees. The information that should be disclosed relates to environmental matters, social matters and the treatment of employees, respect for human rights, anti-corruption and bribery, diversity on company boards (in terms of age, sex, educational and professional background).

As part of the EU taxonomy, the European Commission adopted a proposal for a corporate sustainability reporting directive (CSRD) on 21 April. This proposal will amend the existing reporting requirements of the NFRD. The EU aims to reorient capital flows toward a sustainable economy while avoiding greenwashing by making companies more accountable for, and transparent about their impact on people and the environment. These goals are especially important considering the socio-economic damage caused by the COVID-19 pandemic and the need for a sustainable recovery from this crisis.

In order to achieve these goals, the proposal aims to ensure that there is adequate publicly available information about the risks that sustainability issues present for companies (referred to as the ‘outside-in’ perspective), and the impacts of companies themselves on people and the environment (referred to as the ‘inside-out’ perspective).

Compared to the NFRD sustainability reporting requirements, there are four main new elements to this proposal:

1. The scope would be extended to all large companies and all companies listed on regulated markets, except listed micro-enterprises.
2. It imposes an assurance of the sustainability information from a third party auditor, who will be responsible for evaluating the sustainability data.
3. It specifies in more detail the information that companies should report, and the requirement to report in line with new mandatory EU sustainability reporting standards, which are yet to be revealed.
4. It ensures that all information is published as part of the companies’ management reports (and not in a separate report), meaning that the sustainability information will be disclosed at the same time and place as the financial information. The information should also be disclosed in a digital format.

CSRD should be adopted by Member States by the end of 2022. Companies will have to comply with these new requirements for financial years starting on or after 1 January 2023. However, certain requirements will be applicable from 1 January 2026, enabling companies to prepare for it.

ESG mapping

A broad variety of KPIs are available to measure ESG performance within a company. Below is a representation of the criteria falling under the ESG umbrella that are used by companies of the Selected Index (non-exhaustive list).

Environment		Social		Governance	
CO2 emissions	GreenHouse Gas (GHG) emissions	Employee satisfaction & engagement	Health & Safety	Corporate culture	Business/ leadership targets
Sustainable development	Risk control environment	Customent (stakeholder) satisfaction		Sound risk governance	

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We also refer the reader to the section on key performance indicators with respect to the most commonly used financial and non-financial indicators, among which are some ESG criteria.

Linking ESG to executive pay

Some of the world's largest companies are tying CEO remuneration to environmental, social and governance (ESG) goals. Including ESG metrics in executive pay packages can be a tangible way to close the 'say/do' gap, but the practice has its challenges.

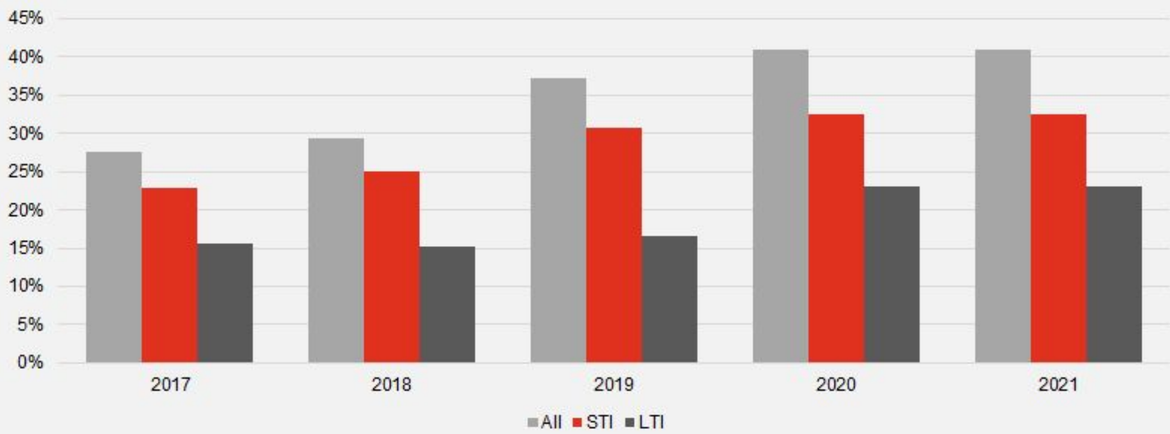
As stated in PwC's corporate director's guide - ESG oversight, many investors are focused on the connection between ESG goals and executive compensation. Linking incentive plan metrics explicitly to the company's ESG strategy allows a company to encourage the achievement of those ESG goals and to signal the importance it gives to those issues. A growing number of shareholder proposals are asking companies to integrate ESG goals into their executive compensation package.

As observed in our previous reports, and confirmed in the present report, performance is still measured largely against financial criteria. Further, non-financial KPIs – and in particular ESG indicators – are more frequently used for STIs rather than LTIs. An explanation for this may be that it is more challenging to set meaningful ESG targets into LTIs as they are likely more output-driven.

As a result, companies start by establishing ESG metrics in STI. This approach allows them to set achievable short-term goals by linking them to STI plans and progressing on them step by step.

The graph below shows the percentage of companies in the Selected Index using ESG criteria to assess the performance achievement of their STI and LTI plans from 2017 to 2021. 'All' refers to the combination of all plans (both STI and LTI) that include an ESG-related KPI. Although the percentages are similar for 2020 and 2021, we can observe a constant (positive) evolution of the percentage of ESG KPIs in STI since 2017, and a relatively stable use of ESG KPIs in LTI up to 2019, with an increase in 2020. Similar to the observations regarding the proportion of ESG KPIs in STIs versus LTIs, we observe that the percentage of companies using ESG KPIs in their long-term incentive plans is lower than the percentage of companies using the same indicators in their short-term incentive plans.

% of companies with ESG KPI, with STI/LTI breakdown



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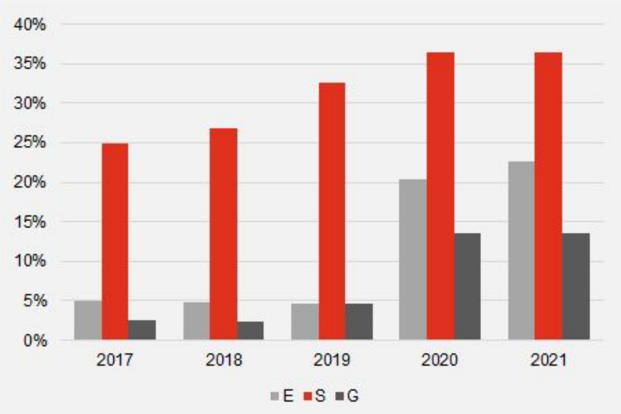
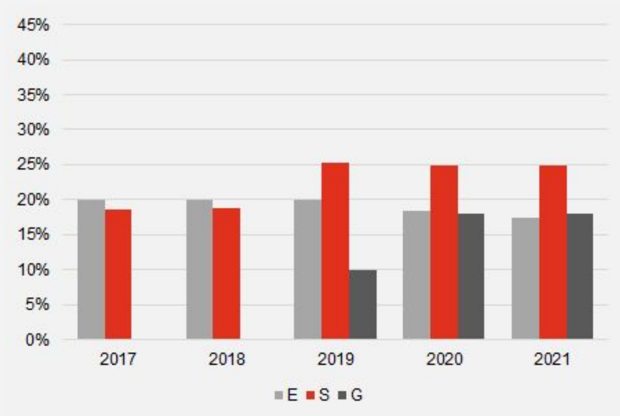
Below is a breakdown of the three components of ESG (environment, social and governance) and the percentage of companies within the Selected Index using them. This graph includes all plans both STI and LTI that can be given in any form (cash, share or option) and that include an ESG-related KPI. The social component is one of the most frequently used KPIs, which is in line with the observation of our previous report that almost one-third of the non-financial KPIs were about employees' health and safety. One may also observe that the use of environmental and governance KPIs increased significantly in 2020.

However, as shown in the graph below, the weight given to each component of ESG KPIs evolved throughout the years. Whereas the environmental indicators outweigh the other factors (although they are close to the weighting of social indicators) up to 2018, we see that social indicators weigh more in the balance after 2019. Concomitantly, governance factors gained importance.

% of companies with E/S/G KPI breakdown



Average weighting given in % for ESG KPI's



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The following graph shows the percentage of companies with cash, share and option plans with ESG KPIs.

% of companies with Cash/Share/Option plans and ESG KPIs

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Remuneration reactions (COVID-19)

The COVID-19 crisis has faced businesses with unprecedented challenges. Many sectors saw their revenues plunge, and were forced to make part of their workforce redundant, while trying to navigate the consequences of a global health crisis. As a result, people expected executives, directors and shareholders to share the pain caused by the pandemic.

Executive pay

As mentioned in our previous report, measures taken by some companies as a result of the health crisis included the cut of attendance fees for board meetings, (voluntary) waiving of fees for directors and cancellation or deferral of pay-out of STI/LTIs[10].

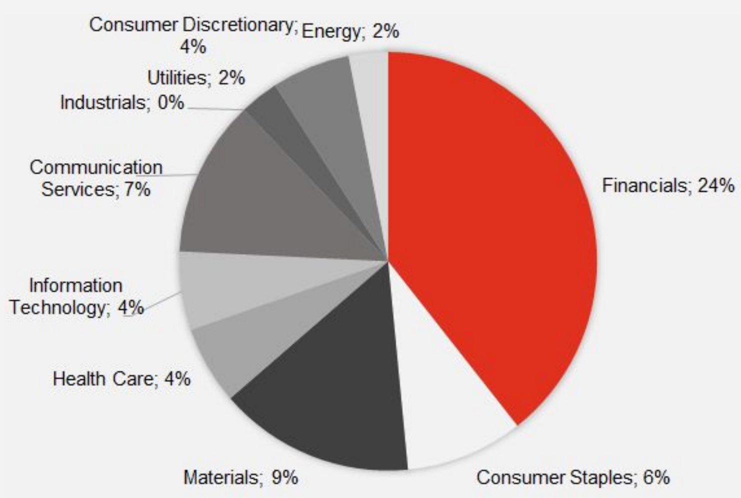
Some sectors have been positively affected by the health crisis. But most sectors have seen demand for their products and services plunge. As a result, executive remuneration was expected to be adjusted. We do indeed observe that as a consequence of the pandemic the base salary of CEOs was reduced. Realised LTIs, however, made a significant proportion of realised CEO pay in 2020, leading to an increase of approximately 68% of realised LTIs on average compared to 2019, causing total realised compensation to be higher in 2020 than it was in the years before (i.e. €2.7m of CEO realised pay on average in 2019 vs €5m in 2020 for the Selected Index as defined in this report). These results should however be interpreted carefully as they are based on average figures, meaning that certain outliers significantly impact the conclusions. Based on median figures, we observed that realised STIs were set at conservative levels and that most CEOs did not realise LTIs in 2020 (or less than €10 for most of those who did realise LTIs). The observations of pay adjustments based on median data are more aligned with the prudent approach that most companies took regarding pay levels during the pandemic.

The proxy advisor ISS released its FAQ and policy guidance on the impact of the COVID-19 pandemic on executive compensation. The key takeaway of the ISS is that companies that decide on above-inflation pay raises, increases in variable pay, or change to STI and LTI plans should be prepared to thoroughly explain the rationale behind the changes, and the resulting benefits for stakeholders, including shareholders.

Dividend distribution

Next to executive and non-executive pay, the payout of dividends was also under particular scrutiny following the health crisis, with some stakeholders believing dividends should not be paid out due to the circumstances. From the Selected Index, 39% of the companies (21 companies) aligned with this expectation, deciding not to pay out any dividend in 2020. The other 61% (33 companies) paid out dividends in 2020. The pie chart below shows the proportion of companies that paid out dividends in 2020 by sector among the 33 companies of the Selected Index that made a distribution of dividend.

% of companies that paid dividend in 2020 by sector



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10 The reader is referred to the section on 'Remuneration reactions (COVID-19)' of our previous report in this respect.

At first glance, the results are surprising, as companies in the financial sector represent the largest proportion that paid out dividends in 2020. However, this graph should be interpreted cautiously for the following reasons:

- The energy sector is only represented by Elia System Operator S.A., which distributed dividends in 2020
- The utilities sector is only represented by Tenaris S.A., which also decided to distribute dividend in 2020
- From the companies in the bank and insurance sector (Ageas S.A./N.V., Dexia S.A., KBC Group N.V., BNP Paribas Fortis S.A./N.V.), only Ageas S.A./N.V. paid a dividend at the end of 2020. The other companies represented in the financial sector in the pie chart are: Ackermans & Van Haaren N.V.; Aedifica S.A.; Altisource Portfolio Solutions S.A.; Aroundtown S.A.; Befimmo S.A.; Brederode S.A.; Cofinimmo S.A.; Grand City Properties S.A.; Groupe Bruxelles Lambert S.A.; Luxempart S.A.; Reinet Investments S.C.A.; Shurgard Self Storage S.A.; Sofina Société Anonyme; Warehouses De Pauw Comm. They all paid a dividend in 2020, except Altisource Portfolio Solutions S.A. and Luxempart S.A.
- For all other sectors, approximately half of the companies represented in each sector paid dividends, with the exception of:
    - the industrial sector where no companies paid dividends in 2020
    - the consumer discretionary where only D'Ieteren S.A. and B&M European Value Retail S.A. paid dividends in 2020
    - and materials where only ArcelorMittal did not pay any dividend in 2020.

The below table shows the breakdown of the number of companies in the Selected Index paying dividends or not, per sector.

Sector	No dividend in 2020	Paid out dividend in 2020
Financials	5	13
Materials	1	5
Communication Services	2	4
Consumer Staples	2	3
Health Care	3	2
Information Technology	1	2
Consumer Discretionary	4	2
Utilities	0	1
Energy	0	1
Industrials	3	0

Board composition - key trends and developments

Board composition

The composition of the board should be determined so as to be appropriate for the company's purpose, operations, phase of development, and structure of ownership. In order to ensure that decisions are made in the corporate interest of the company, taking into account the legitimate interests and expectations of shareholders and all other stakeholders, the board should comprise expertise in the company's areas of activity as well as a diversity of skills, knowledge, background, age and sex.

Board composition has become a hot topic with investors, regulators, and others in the governance community, as well as in boardrooms. Many investors and other stakeholders want more information about a company's director nominees, especially when boards and their nominating and governance committees are considering director tenure, board diversity, and the results of board self-evaluations.

Board size

The board should be of the correct size, i.e. not too large to enable effective deliberation and decision making, but not too small to guarantee board diversity. In Belgium and Luxembourg, the board should in principle comprise at least three members, with a maximum of 16 directors recommended by the Luxembourg corporate governance code. There is no similar recommendation regarding the maximum number of directors under Belgian regulation or soft law.

Luxembourg companies in the Selected Index adhered to the corporate governance code: the smallest boards consist of four members (Altisource portfolio solutions S.A. and Grand City Properties S.A.) while the largest boards are composed of 14 members (RTL group and Ardagh group S.A.). On average, Luxembourg boards are composed of eight to nine members.

Board size - Luxembourg

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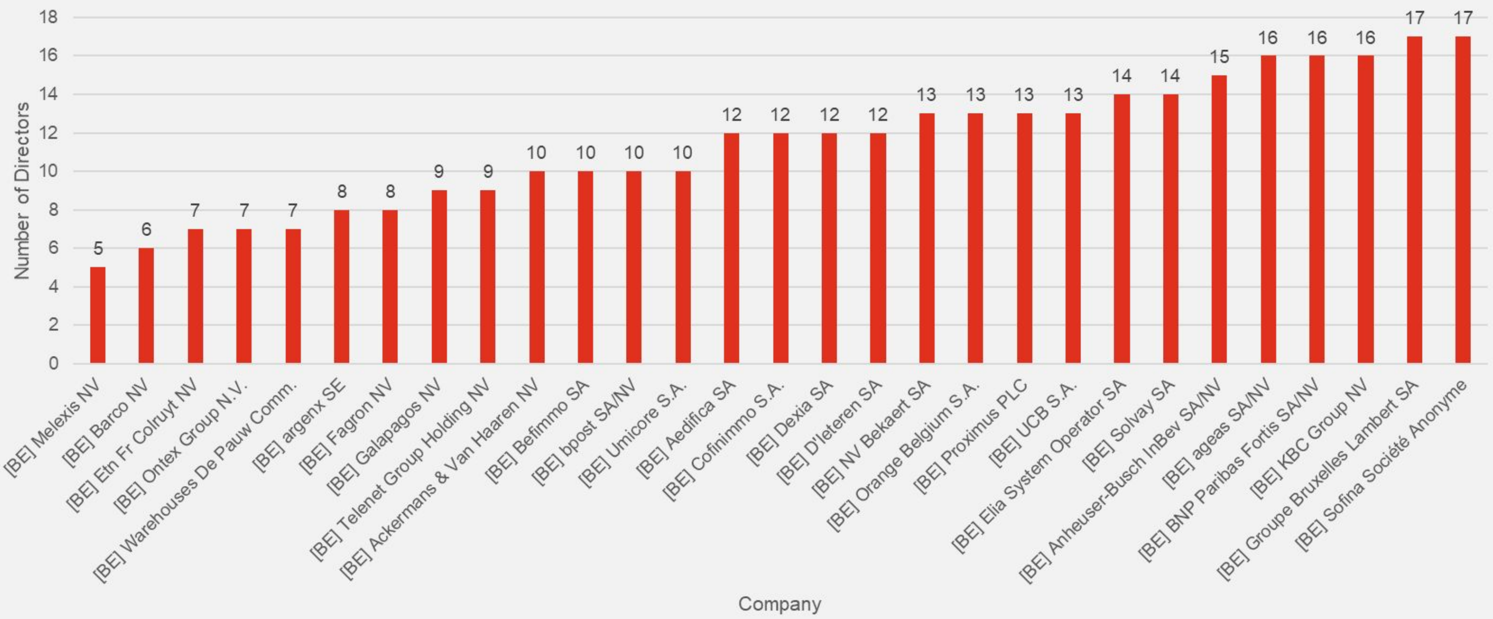
The board size of Belgian companies in the Selected Index is usually higher, with an average of 11 to 12 members. The smallest board counts five members (Melexis N.V.) and the largest boards consist of 17 members (Sofina Société anonyme and Groupe Bruxelles Lambert S.A.).

Board size - Belgium



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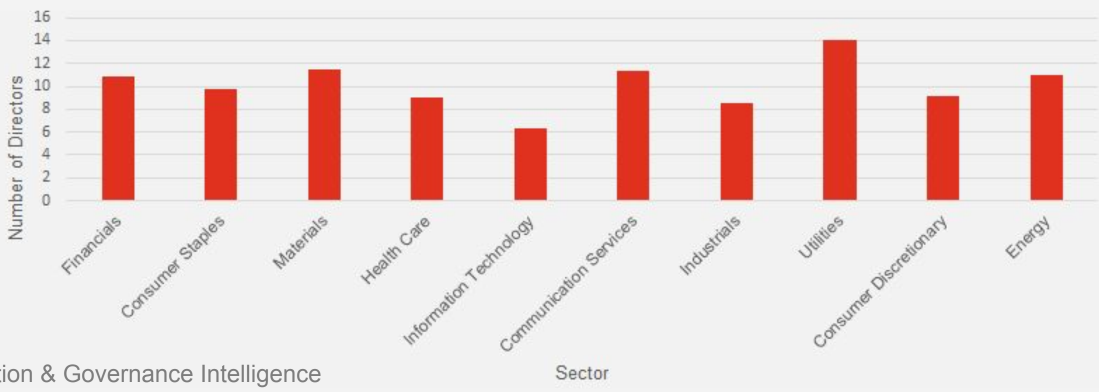
Compared to last year, the number of directors remained stable in each company of the Selected Index, with a small number of companies that appointed more directors, most of them being in Luxembourg (e.g. Ardagh Group S.A., RTL Group S.A., Luxempart S.A.).

Board size in the Selected Index remained stable in every sector compared to previous years. The following graph shows the average number of directors per sector.

Board size



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Board diversity

Diversity is a key element of any discussion of board composition. It covers not only sex, age, race and ethnicity, but also the range of skills, backgrounds, personalities, and experiences on the board.

The non-financial reporting directive (NFRD)[11] requires large listed companies to provide a description of their diversity policy. This should show how the policy is applied in relation to the company's directors, members of the management committee, and management, with regard to aspects such as age, sex, and educational and professional background. It should also describe the objectives of the diversity policy, its implementation methods, and their outcome.

On 21 April, the European Commission adopted a proposal for a corporate sustainability reporting directive (CSRD), which would amend the existing reporting requirements of the NFRD. The proposal aims to strengthen the application of the principle of equal opportunities for all, equal pay for equal work (or work of equal value) by men and women, through pay transparency and enforcement mechanisms. It also ties in with the proposed directive on improving the gender balance on the boards of large EU listed companies by sharing information on companies' diversity policies.

Moreover, the European Commission has presented objectives towards a gender-equal Europe in their Gender Equality Strategy 2020-2025. As part of this, a proposal on pay transparency was presented in March with the aim of reducing the gender pay gap. One of the goals is a Union where women can participate equally in, and lead our European society.

Women in the boardroom

Board turnover remains low, slowing progress towards greater gender balance on boards

The Belgian Companies and Associations Code requires that in Belgian listed companies and public interest entities[12], at least one-third of board members should be of a different sex from the majority. If a board member is a 'legal person', its gender is determined by the sex of the permanent representative.

If the board of directors does not meet the one-third threshold, the first general meeting that follows should remediate the situation. Any other appointment is void. If the composition of the board is still not compliant after this general meeting, any benefit, financial or other advantage of the directors based on their mandate is suspended until the quota is met.

The composition of the board of directors of companies whose shares are listed for the first time must comply with the quota of women on the board from the first day of the sixth year following the listing.

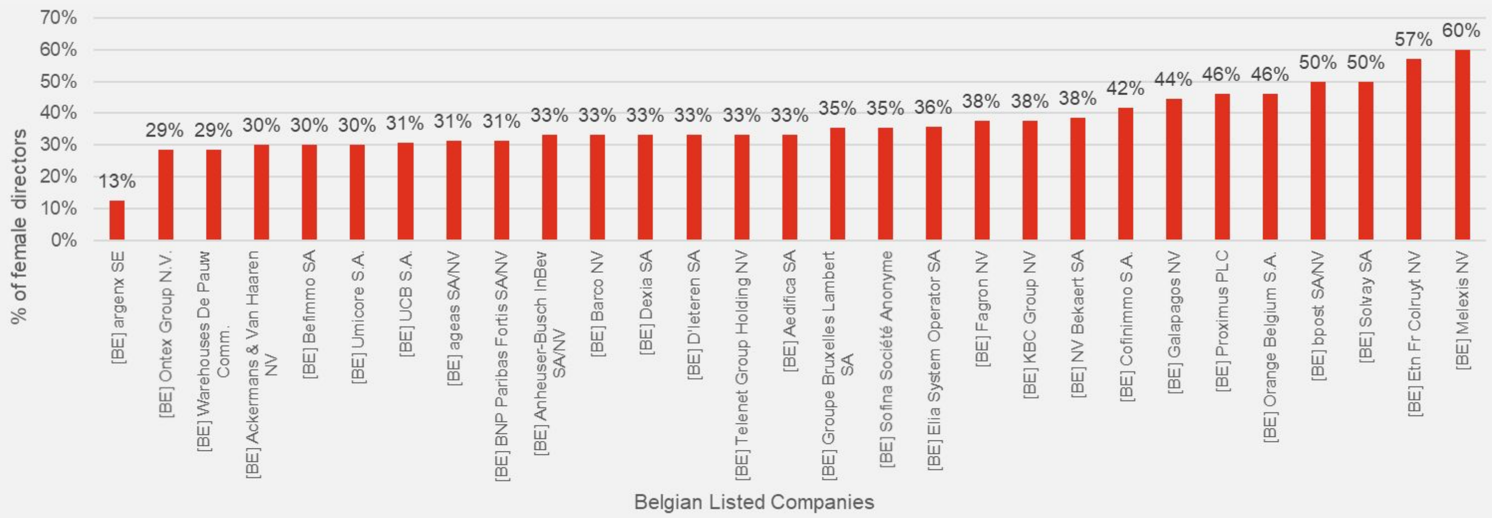
The graph below shows the percentage of female board members in Belgian companies of the Selected Index. Despite the one-third quota of women in the board of directors required by Belgian law[13], and the related sanctions for non-compliance, six companies of the Selected Index lag behind in terms of women on boards. On average, the representation of women in Belgian boards is 37% while the median corresponds to the legal quota (33%).

[11] Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups.

[12] Art. 3:6 and in particular Art. 7:86 of the Belgian Companies and Associations Code.

[13] Belgian act, 3 September 2017, regarding disclosure of non-financial and diversity information by certain large companies and groups (Belgian Official Gazette, 11 September 2017).

Gender Diversity - % Female Directors on company board (2021)
Belgium



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It is important to note that argenx SE is included in the Belgian companies of the Selected Index. This is due to the fact that the shares of argenx SE are traded on Euronext Brussels. As the headquarters of the company is located in the Netherlands, the one-third quota established in the Belgian Code of Associations and Companies does in principle not apply (Belgium applying the statutory seat theory).

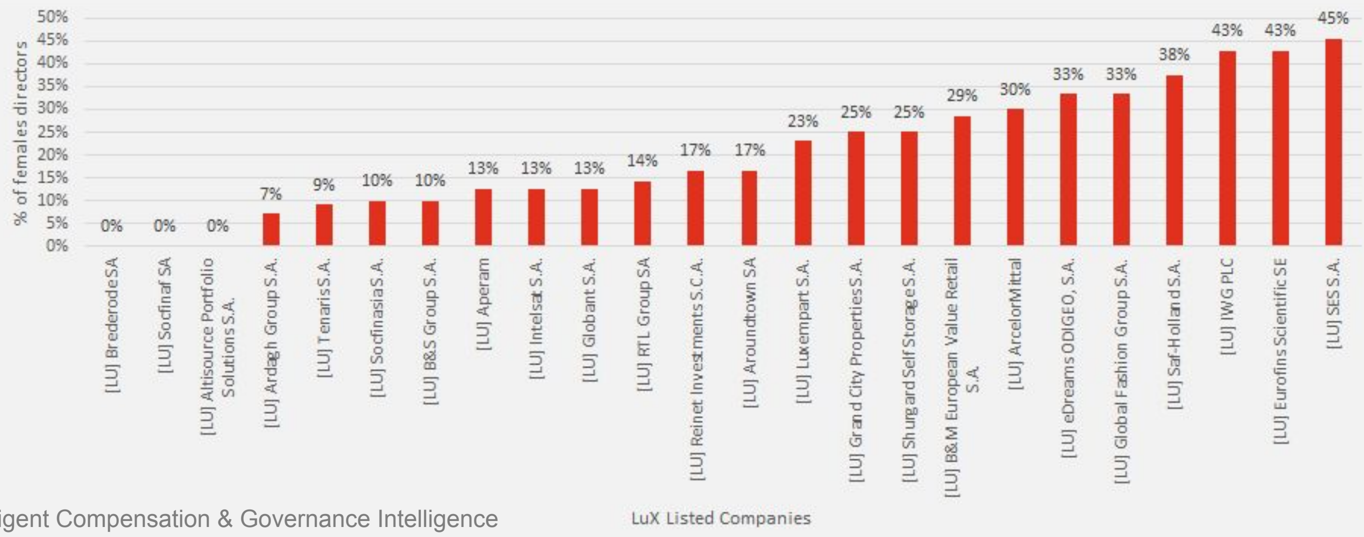
On 28 September 2021, the Senate of the Netherlands approved a law ('*wet ingroeiquotum voor ⅓ vrouwelijke Raad van Commissarissen-leden*') introducing a one-third female quota requirement at supervisory board level. More specifically, this law, which will come into effect early next year, stipulates that the supervisory board should consist of at least one-third women and at least one-third men.

The gender diversity requirement set in the Dutch law for listed and large companies is similar to the one-third quota in Belgium. However, it only targets the supervisory board level. A phase-in approach is allowed for companies that have insufficient diversity at their supervisory board level, whereby new appointments can be used to achieve the one-third target. Non-compliance is sanctioned by the cancellation of new appointments. Further, companies are also obliged to set appropriate and ambitious diversity targets for the management board, put concrete plans in place to reach the targets, and track and report annually on progress made.

The following graph shows the percentage of female directors in Luxembourg companies of the Selected Index. Only six Luxembourg companies in the Selected Index have at least one-third of the board members of a different sex, and three companies have no gender diversity (Brederode S.A., Socfinaf S.A. and Altisource Portfolio Solutions S.A.). On average, the representation of women in Luxembourg boards is 20%. None of the companies of the Selected Index reach gender parity in Luxembourg.

[7] Cf. the section on 'Remuneration reactions (COVID-19)' in our previous report.

Gender Diversity - % Female Directors on company board (2021) Luxembourg



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The notable difference between the representation of women on boards in Belgium and in Luxembourg can be explained by the lack of regulation and best practices about gender diversity in Luxembourg compared to Belgium. In Luxembourg, regulations on board directorships are taken from the CSSF Circular 20/758 and 20/759. Whereas a diversity (of geography, sex, education, and background) in board members is promoted and should be based on the principle of non-discrimination, and on measures ensuring equal opportunities, there are no strict quotas in place to promote women's representation.

In terms of board gender diversity, the ISS EMEA proxy voting guidelines recommend voting against the chair of the nomination committee when the underrepresented sex accounts for less than 30%, or the legal threshold provided for in domestic legislation, unless there are mitigating factors (e.g. past compliance and commitment to remediate) and regardless of the company's size. The updated ISS guidelines provide for a one-year transitional period, meaning that the recommendation will be effective from 1 February 2022.

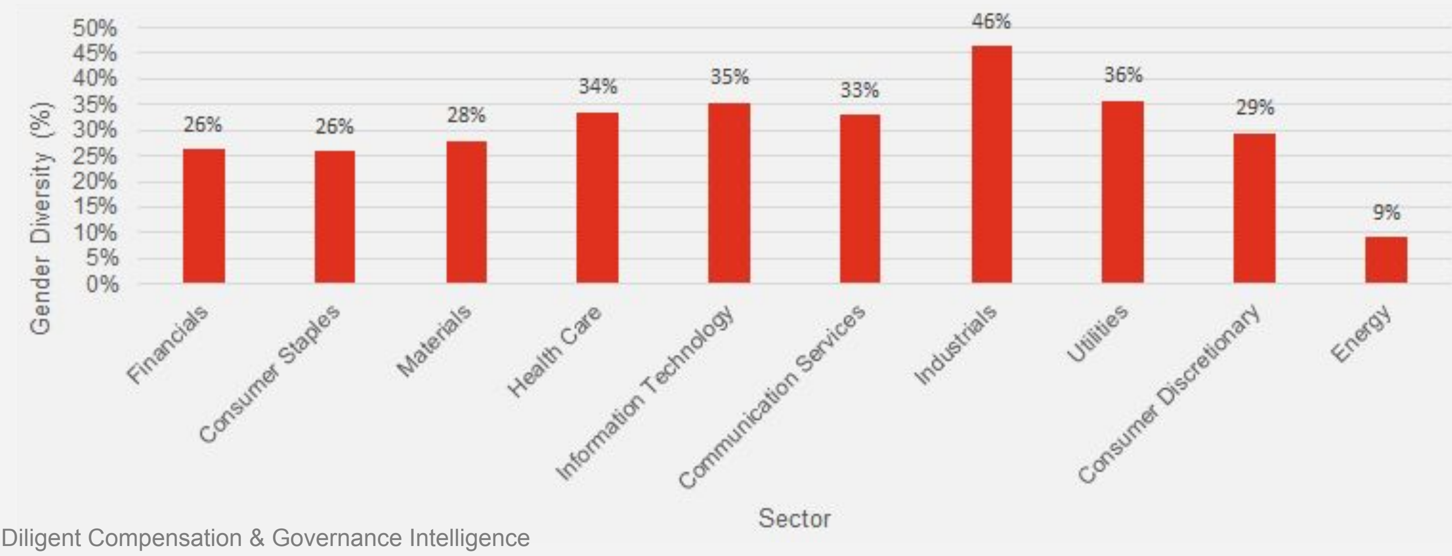
The 2020 PwC's Annual Corporate Directors Survey highlights certain discrepancies in terms of board diversity. Results from the survey show that 84% of directors believe companies should do more to promote diversity in the workplace, yet only 39% support linking these diversity goals with executive compensation. Some 44% of women believe that leadership is not invested in board diversity, while only 20% of their male counterparts believe the same.

The sexes also disagree on the inhibitors of board diversity. Women believe that the main inhibitors are the reluctance to retire by long-serving directors, and board members not being invested enough in board diversity. Men, on the other hand, believe that a lack of qualified candidates and change on the board not being needed are the main reasons. These results show that although progress has been made, there is still a long way to go. The results of the 2020 PwC's survey also highlight the need for succession planning. One main roadblock to achieving diversity is the director candidate pool. Many boards look to current or former CEOs as potential director candidates.

The following graph shows the representation of women on boards per sector for the Belgian and LuxX index. The financial sector includes the following industries: diversified financials, insurance, banks, real estate, and capital markets. The energy sector is only represented by Tenaris S.A. (LuxX index), which explains the low percentage of women for this sector (9%).

Overall, the percentage of women on boards has increased in all sectors compared to last year, with the exception of the information technology sector, where it has decreased slightly.

Board Gender Diversity - % women per Sector (2011)



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Evolving legislative landscape in the banking sector: implementation of CRD V and EBA 'draft final' guidelines on sound remuneration policies under CRD V

The EBA published their 'draft final' guidelines on sound remuneration policies under CRD V (hereinafter 'the Guidelines'). These Guidelines will become final once they are ratified by the EU Parliament. Further amendments to the text are not expected at this stage. The updated Guidelines will apply to firms in scope of CRD V from 31 December 2021. In other words, the 2022 performance year will be the first year in scope of the new Guidelines.

It provides for a number of clarifications, including on the requirements for gender-neutral remuneration policies, and in particular equal pay analysis from a gender perspective.

The Guidelines include a number of specific requirements that may go beyond current practice in some Belgian organisations. In particular, institutions are required to document appropriately the value of the position for all staff members or categories of staff, and determine which positions are considered as having an equal value, e.g. by implementing a job classification system, taking into account the type of activities, tasks, and duties assigned to the position or staff member. Where a job classification system is used for determining pay, it should be based on the same criteria for men, women, and staff of diverse genders and drawn up so as to exclude any discrimination, including on grounds of gender. In other words, the Guidelines as drafted state that an analysis of job descriptions will need to be completed to determine those roles which are of equal value across different areas of the organisation.

Firms are also expected to monitor the overall gender pay gap including the ratio between the average remuneration of all male and female staff with a split comparison between material risk takers (excluding the management body), the management body (split by the management and supervisory function), and other staff. These ratios should be calculated on a country-by-country basis and where material differences between genders are found the firm needs to provide a rationale for the disparity, and where appropriate take action, while also being able to demonstrate that their remuneration policies are gender-neutral and provide equal opportunities.

Other considerations are included in the Guidelines, such as the incorporation of ESG risk factors in the remuneration policy, the requirement of having a majority of independent members on the remuneration committee for global or other systemically important institution (G-SIIs and O-SIIs respectively), clarifications on retention bonuses and severance pay, etc.

Note that similar requirements exist for investment firms under the investment firms regulation (IFR) and investment firms directive (IFD).The EBA released a Consultation Paper on Draft Guidelines on sound remuneration policies under Directive (EUR) 2019/2034. The IFR entered into force on 26 June 2021 and is directly applicable while the IFD should be transposed by Member States into their national law by 26 June 2021. This new prudential framework contains among other things a mandatory set of rules on remuneration. The extent to which the new rules will apply will depend on the category into which the investment firm will be classified based on its size, activities, and group structure.

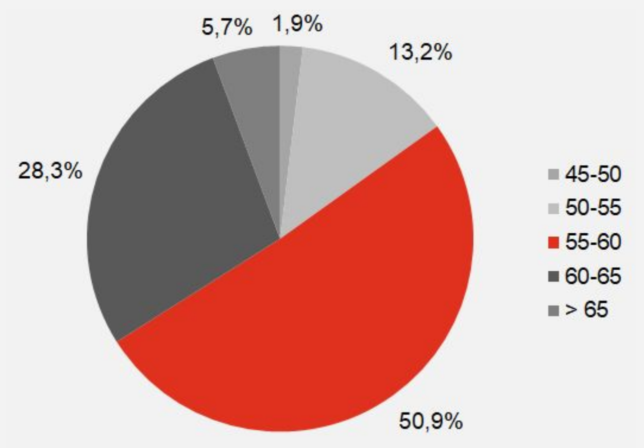
Update: The Belgian law of 11 July implementing EU financial directives (CRD V; BRR2; IFD; Solvency II) finally transposed CRD V into Belgian law (late transposition). The IFD has also been partially implemented by the same law.

Age diversity

One area that is often overlooked is age diversity.

Similar to the observations of last year, the average age of board members in the Selected Index is approaching 60 in every sector.

Board Diversity - Average age of the Selected Index



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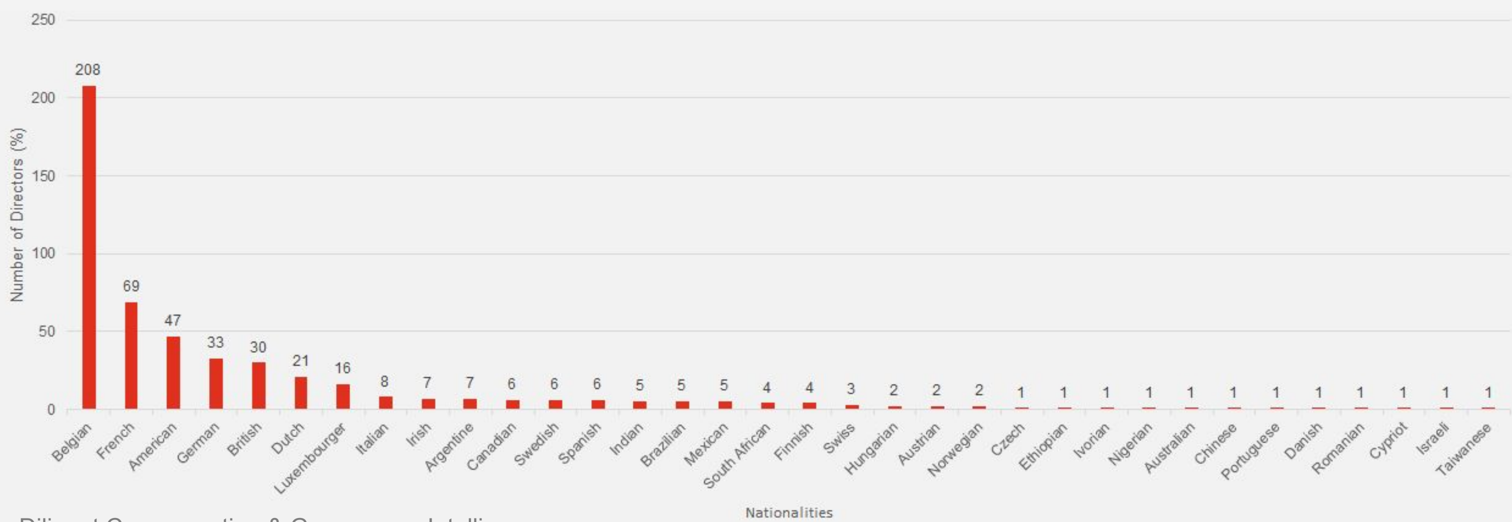
The youngest board member (33 years old) sits on the board of B&S Group S.A. while the oldest (88 years old) is on the board of Sofina Société Anonyme. Socfinaf S.A. has the biggest age gap between the youngest and oldest members (49 years difference). The board of Grand City Properties S.A. is composed of four members all aged 76 years old, which is the least diverse of the panel.

Nationalities in the boardroom

As expected, the most represented nationality on the boards of the Selected Index is Belgian, with 41% of board members having Belgian nationality. The second most common nationality is French (14%) followed by American (9%). With the exception of the United States, almost all nationalities that are represented by more than 1% in boards are from (neighbouring) European countries.

While board racial diversity is becoming a hot topic, in particular in the US, European companies face challenges with mapping their current situation, since often companies do not have the available information at hand, due to GDPR that prevent them from collecting or publishing sensitive data. Nonetheless, the observed lack of diversity based on an analysis on nationalities on boards gives us an indicator that racial and ethnic diversity may not currently be achieved by the Selected Index.

Nationalities in the Boardroom



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Diversity of skills and expertise

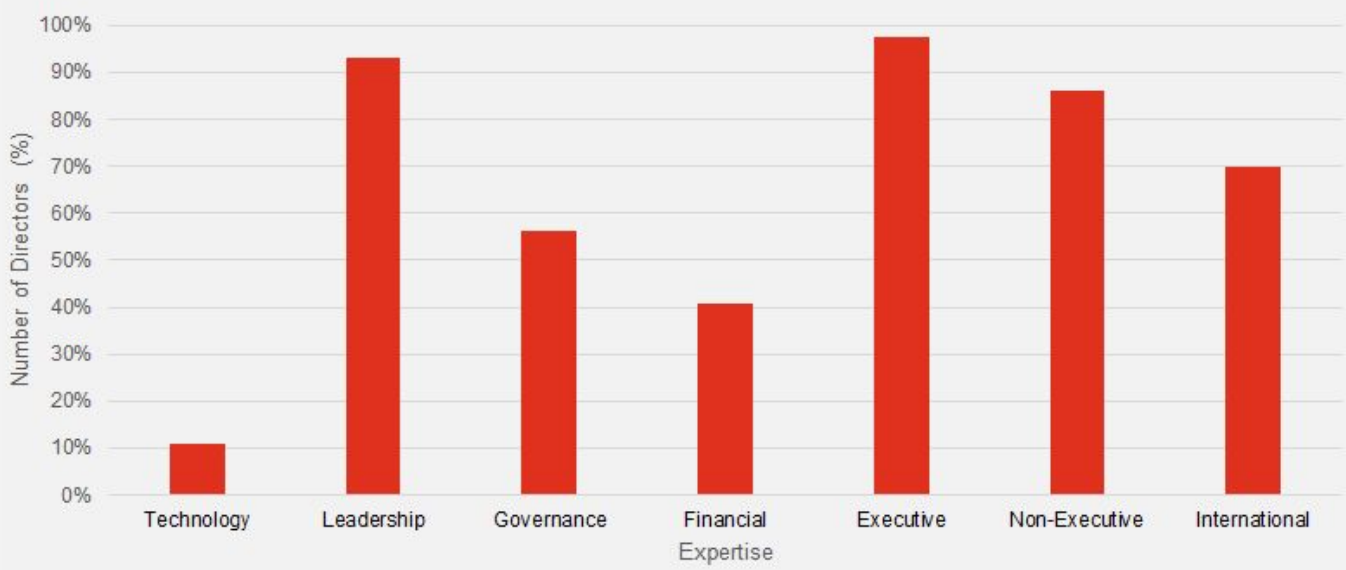
Having a diverse board in terms of experience, skill and expertise is critical. For this reason, the boards of our reference index were analysed in terms of a total of seven expertise[14] areas: executive, non-executive, financial, governance, international, leadership and technological expertise. The three most represented areas of expertise were the executive (98% of directors), leadership (93%), and non-executive (86%), results that can be explained by the logical career path that leads to becoming a board member. The least reported areas of expertise were technology (11%) and finance (41%). With the importance of technology rising faster than ever, and younger cohorts replacing older ones on the boards, we may expect the number of directors with expertise in technology to rise substantially in the future.

The results of the 2020 PwC's Annual Corporate Directors Survey show that directors are finding a wide range of expertise in the boardroom less important than they were five years ago. This may be explained by the fact that lines between industries are blurring, the sense that directors often have a wide array of experience, and the fact that boards focus more on racial (in the US) and gender diversity, lessening the focus on expertise diversity.

This could explain why companies from the Selected Index show high levels of expertise in leadership areas but a lot less in more specific industry-related areas.

The survey also highlights that directors are giving greater importance to ESG expertise in the boardroom. Besides, female corporate directors would see a greater connection between the company strategy and ESG issues, and are more likely to give greater priority to environmental and social issues in the boardroom, as well as to support non-financial performance metrics to promote different executive behaviour. It is worth noting that the expertise in governance in the Selected Index reaches 56%, which seems a positive sign.

Board Expertise - Breakdown (2021)



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14 Reference is made to Appendix 2 for guidelines on the classification of board member's expertise.

Director tenure

It is quite common for board members to simultaneously hold mandates in different companies. Directors must, however, be able to devote sufficient time to every directorship. Especially during a crisis, where more time must be allocated to board activities than previously expected, this may prove to be challenging when holding multiple mandates.

Among the Selected Index, a total of 1892 mandates are held by 543 directors, an average of almost 3.5 mandates per director. Directors from Luxembourg held an average of four mandates, compared to an average of three for the Belgian directors. This significant difference between the countries can be explained by two outliers from Luxembourg. Socfinaf S.A. and Socfinasia S.A. (both having a board composed of ten members) have a significantly higher average number of directorships (14.3 and 14.9 respectively) than other companies in the Selected Index. Leaving these companies out of the sample, the average number of directorships in Luxembourg falls to 2.9, a number which is a lot closer to the Belgian average. Next in line is Ageas S.A./N.V., with an average of approximately six mandates per director. Aedifica S.A. has the smallest average number of directorships (1.33).

According to Article 62, § 1 of the Banking Law, members of the management body must devote sufficient time to the exercise of their function in the institution.

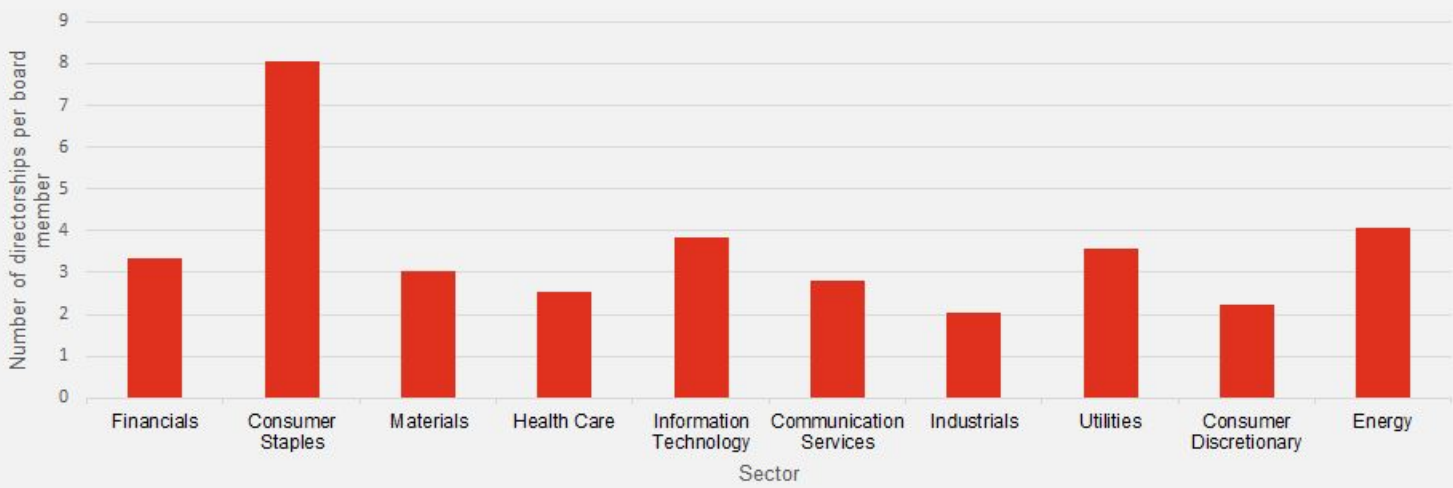
For significant institutions, the Banking Law contains specific quantitative restrictions on the number of mandates. The National Bank of Belgium explains how these rules should be interpreted in an external guideline.

A director's term may not exceed six years under Belgian law[15], while the Belgian Code on Corporate Governance recommends the directorship's term not to exceed four years[16]. The 2021 Belgian voting guidelines from Glass Lewis recommend voting against the nominating committee chair when director terms exceed the four year limit.

Director 'overboarding' is a particular concern of investors. In Belgium and Luxembourg, both ISS and Glass Lewis recommend voting against a candidate who already holds an excessive number of board appointments. The expression 'overboarded' is defined as:

- *Any person who holds more than five mandates at listed companies. For the purposes of calculating this limit, a non-executive directorship counts as one mandate, a non-executive chairmanship counts as two mandates, and a position as executive director (or a comparable role) is counted as three mandates.*
- *Any person who holds the position of executive director (or a comparable role) at one company and a non-executive chairman at a different company*[17].

Average number of directorship per director - all sectors



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15 Article 7:85§2 and 7:105§3 of the Belgian Code on Companies and Associations
16 Provision 5.6 of the Belgian Code on Corporate Governance
17 ISS EMEA Proxy Voting Guidelines Updates for 2021 (available here).

Having the right individuals in the boardroom is critical. Board renewal still lags as leadership frequently avoids both the tough conversations with directors who should be replaced, and the hard work of long-term board succession planning. In this process, it is important to think about the current state of the board, the tenure of current directors, and the company’s future needs. Boards should identify possible director candidates based on anticipated turnover and director retirements. Boards frequently recruit directors by asking other sitting directors for recommendations. This can create a small and insular pool. Forward-looking boards expand the field of potential qualified candidates by looking outside of the C-suite, and considering investor recommendations. This can provide a broader pool of individuals with more diverse backgrounds.

Appendix 1

Diligent Compensation and Governance Intel CEO P4P overview

The below ranking is based on the degree of alignment between TRC and performance found in the 'Diligent Institute – 2020 P4P Alignment' chart.

	Ranking: 2020 (2018)	BeLux	2020				Δ 2018-2020				2018-2020				
			Total Realised Compensation (mln eur)	2020 TSR	Percentrank compensation	Percentrank performance	Growth 2018-2020 TRC	Δ 2018-2020 TSR	Percentrank compensation	Percentrank performance	3YR Total Realized Compensation (mln eur)	3Y TSR	Percentrank compensation	Percentrank performance	2020 year end value of 100 eur investment made January 1st, 2018.
Strong Alignment	1(13)	argenx SE	**34.8**	69%	98	98	779%	6%	100	58	**43.8**	361%	98	100	**461**
	2(18)	Aedifica SA	**1.3**	-8%	50	51	65%	-13%	76	25	**2.9**	51%	39	85	**151**
	3(-)	B&S Group S.A.	**0.9**	-23%	23	21					**2.1**		16		
	4(4)	Sofina Société Anonyme	**14.2**	45%	95	93	80%	17%	81	73	**23.8**	118%	94	95	**218**
	5(36)	eDreams ODIGEO, S.A.	**1.8**	-3%	61	58	-25%	48%	30	85	**6.5**	-13%	69	40	**87**
	6(7)	ageas SA/NV	**1.0**	-13%	32	37	-31%	-12%	25	28	**4.5**	21%	55	65	**121**
	7(23)	Fagron NV	**1.4**	-1%	55	60	85%	-27%	84	13	**2.9**	69%	37	88	**169**
	8(16)	Befimmo SA	**0.9**	-30%	25	19	39%	-25%	73	15	**2.4**	-22%	23	30	**78**
	9(15)	Proximus PLC	**0.5**	-33%	9	16	-33%	-23%	22	18	**2.2**	-32%	19	20	**68**
	10(8)	B&M European Value Retail S.A.	**3.7**	43%	80	91	212%	75%	92	98	**6.1**	44%	64	80	**144**
	11(33)	Ontex Group N.V.	**0.8**	-41%	20	7	-56%	-7%	3	33	**5.2**	-59%	57	5	**41**
	12(11)	UCB S.A.	**6.5**	20%	89	74	16%	11%	65	63	**17.6**	32%	89	70	**132**
	13(6)	bpost SA/NV	**0.6**	-18%	14	33	5%	48%	57	83	**2.0**	-61%	14	3	**39**
	14(20)	Grand City Properties S.A.	**1.1**	2%	43	63	103%	2%	87	50	**2.2**	19%	21	63	**119**
	15(10)	D'Ieteren SA	**1.4**	10%	52	72	7%	15%	60	65	**2.6**	101%	32	90	**201**
Conservative Practise	16(-)	Aperam	**1.8**	27%	64	86		71%		93	**3.1**	-7%	41	48	**93**
	17(24)	Aroundtown SA	**0.3**	-21%	2	26	-47%	-37%	14	10	**1.5**	5%	7	60	**105**
	18(19)	Cofinimmo S.A.	**1.0**	-4%	30	53	26%	-9%	68	30	**2.6**	24%	30	68	**124**
	19(35)	ArcelorMittal	**1.2**	21%	45	77	-77%	54%	0	88	**10.5**	-30%	82	28	**70**
	20(-)	Shurgard Self Storage S.A.	**1.0**	7%	34	67	-31%		27		**3.4**		46		
	21(17)	Elia System Operator SA	**1.1**	25%	36	84	2%	0%	52	45	**3.2**	117%	44	93	**217**
	22(12)	Eurofins Scientific SE	**1.1**	39%	41	88	-6%	74%	41	95	**3.5**	37%	50	75	**137**
	23(31)	NV Bekaert SA	**0.6**	4%	11	65	-55%	45%	6	80	**3.4**	-21%	48	33	**79**
	24(22)	Orange Belgium S.A.	**0.4**	8%	7	70	-5%	7%	44	60	**1.4**	33%	5	73	**133**
	25(21)	Warehouses De Pauw Comm. VA	**0.7**	25%	16	81	-21%	-3%	36	40	**2.4**	129%	28	98	**229**
	26(-)	Global Fashion Group S.A.	**0.9**	319%	27	100					**1.9**		12		
	27(26)	Saf-Holland S.A.	**0.7**	52%	18	95	-41%	88%	17	100	**2.8**	-33%	34	18	**67**
	28(9)	Melexis NV	**0.3**	21%	0	79	-34%	59%	19	90	**1.0**	1%	0	53	**101**

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Misaligned	29(34)	Solvay SA	4.0	-3%	82	56	-12%	20%	38	78	13.0	-9%	87	45	91
	30(-)	RTL Group SA	2.0	-10%	68	42		17%		75	2.4	-34%	25	15	66
	31(2)	Ackermans & Van Haaren NV	1.8	-11%	66	40	30%	-2%	71	43	5.7	-12%	62	43	88
	32(1)	Umicore S.A.	2.8	-9%	75	47	117%	2%	90	48	8.4	3%	73	58	103
	33(32)	Groupe Bruxelles Lambert SA	2.1	-9%	73	44	-48%	4%	11	55	9.4	-1%	78	50	99
	34(3)	BNP Paribas Fortis SA/NV	1.8	-21%	59	30	3%	-17%	54	20	5.2	-21%	59	35	79
	35(5)	IWG PLC	1.4	-21%	57	23	12%	-4%	63	38	7.3	39%	71	78	139
	36(14)	Barco NV	1.1	-42%	39	5	-23%	-55%	33	8	4.2	45%	53	83	145
	37(30)	KBC Group NV	2.1	-15%	70	35	-5%	3%	46	53	6.3	-14%	66	38	86
	38(28)	Telenet Group Holding NV	6.0	-8%	86	49	242%	16%	95	70	9.6	-30%	80	25	70
	39(-)	SES S.A.	1.2	-35%	48	9		-70%		3	1.2	-31%	3	23	69
	40(29)	Altisource Portfolio Solutions S.A.	3.0	-33%	77	14	70%	-14%	79	23	9.0	-54%	75	8	46
	41(37)	Anheuser-Busch InBev SA/NV	96.4	-21%	100	28	667%	15%	98	68	126.5	-36%	100	13	64
	42(-)	Tenaris S.A.	4.6	-33%	84	12		-7%		35	10.8	-46%	84	10	54
	43(27)	Galapagos NV	6.9	-57%	91	2	-2%	-59%	49	5	22.0	2%	91	55	102
	44(-)	Intelsat S.A.	9.9	-94%	93	0		-625%		0	26.4	-88%	96	-	12
	45(25)	Dexia SA	0.4		5		-54%		9		1.9		9		

Appendix 2

Guideline definitions and skills matrix[18]

Diligent Compensation & Governance Intel

Executive and non-executive expertise: This expertise tag is assigned to individuals who have held executive or non-executive positions in a listed or non-listed corporation (foundations are excluded) for at least two consecutive years. This group of individuals includes senior global leadership, executive committee members or equivalent positions, and members of the board of directors.

Leadership expertise: This expertise tag is assigned to a professional who has occupied a senior managerial and leadership role within a company or unit, with responsibilities in the overall design and development of the company or unit, as well as leading a workforce.

Industry and sector expertise: This expertise tag is assigned to professionals based on their curriculum vitae, after identifying the industries in which they have worked. When the industries of different companies that they have worked in are common, then a professional would be given the industry and sector expertise. The global industry classification standard (GICS) structure for industry and sector groups is used as a basis for each company the individual has worked in.

Governance expertise: Such expertise is assigned to individuals who have worked as a company secretary, legal counsel and/or in a position with compliance responsibilities (e.g. compliance officer). Professionals who have been members of a corporate governance committee will also be accorded governance expertise. The same applies to individuals who are practicing governance at academic institutions.

Technology expertise: Technology expertise is assigned to individuals, who have had extensive experience in technology roles during their career. This would include responsibilities for information technology, software development, digital, cyber security and other IT-related departments. Individuals with a Ph.D. in technology, information technology or computer science will be automatically assigned technology expertise.

Financial expertise: Such expertise can be earned through education and extensive experience. Financial expertise is assigned to individuals who have worked in a company as a principal financial or accounting officer, controller, certified public accountant, or auditor. Moreover, it consists of individuals who have experience in actively supervising the aforementioned positions and/or overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements. Individuals will also be held to have financial expertise if they have held public office, which included financial base roles e.g. finance minister, accountant general etc. Finally, an individual with a Ph.D. in finance is considered to have financial expertise. Financial expertise is also accorded to people who are considered to have extensive exposure to the audit committee.

PwC and Diligent Institute

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

How can we help you?

Diligent Institute

- High-quality qualitative and or quantitative corporate governance Research.
- Meeting the needs of corporate directors by providing cross cutting research in GRC, Audit, ESG to aid decision making.
- Helping corporations learn about modern governance and how to achieve it.

About PwC

At PwC, our purpose is to build trust in society and solve important problems. With offices in 155 countries and more than 284,000 people, we are among the leading professional services networks in the world. We help organisations and individuals create the value they are looking for, by delivering quality in assurance, tax and advisory services. Find out more and tell us what matters to you by visiting us at www.pwc.com/be.

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About the Diligent Institute

The Diligent Institute seeks to help corporate leaders be more effective by providing cutting-edge insights on corporate governance, by amplifying the voices of diverse corporate leaders, and by sharing broadly all that we are learning about modern governance practices. Founded in 2018, the Diligent Institute serves as the global corporate governance research arm and think tank of Diligent Corporation, the largest SaaS software company in the governance, risk and compliance (GRC) space. We produce original research both on our own and in collaboration with partners, including institutions of higher education and thought leaders in the corporate governance space. We produce over a dozen reports each year, ranging from our monthly Director Confidence Index, which measures how corporate directors are feeling about the economy, to in-depth reviews of issues such as ESG (environment, social, governance) practices, to our AI-powered Corporate Sentiment Tracker that analyses data from thousands of public sources to discern what's on the minds of corporate leaders. The Diligent Institute is funded solely by Diligent Corporation.

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