

FOREWORD

The organisation of the administration and management of companies, which is better known under the term 'corporate governance' has to meet the expectations of the shareholders and the requirements of the economic process. The VBO/FEB has recently ratified recommendations within this framework. They were set out by a group of company managers under the chairmanship of Baron Daniel Janssen, Honorary President of the VBO/FEB and Chairman of the Executive Committee of Solvay. They are inspired by the Cadbury Code, produced in the United Kingdom, since that code is internationally well known. They are, however, adapted to the Belgian context.

The recommendations of the VBO/FEB are particularly intended for large companies and above all for listed companies. Some of them may, however, also be useful for smaller businesses. Every company must therefore judge, on the basis of its own specific characteristics, which recommendations are best suited to it. This is a non-coercive approach, since the VBO/FEB considers that corporate governance lends itself to self-regulation rather than regulation.

As regards the content of the recommendations, they emphasise the best possible rules and structures in relation to corporate governance: the composition and functioning of the Board of Directors, the role of directors, reports to be presented etc.

Just as Molière's "bourgeois gentilhomme" used to speak in prose without knowing it, companies already apply principles of corporate governance in their daily existence. However, systematising or improving them can help businesses to work more efficiently and promote their development. That is

what the VBO/FEB wishes to see!

January 1998

INTRODUCTORY COMMENTS

1. A company managers group was established in June 1997 by the Management Committee of the Federation of Belgian Companies (VBO/FEB).

It is chaired by Baron Daniel Janssen, Chairman of the Executive Committee of Solvay and Honorary President of the VBO/FEB. The Vice-President is Luc Santens, the Vice-Chairman of Santens NV.

The composition of the group is set out in the appendix.

2. The group was created to study the principal aspects of governing and administering companies (corporate governance) and to make recommendations for the benefit of companies.
3. The VBO/FEB considers that corporate governance lends itself to self-regulation by the business circles involved, rather than legislative intervention which is unable, due to its inflexibility, to cover the diverse range of situations and developments which necessarily take place in this area.

4. The VBO/FEB has used, as the basis for its activities, the "Code of best practice" which has been recommended by the Cadbury Committee in the United Kingdom. These recommendations are very authoritative on an international level, and they are the result of activities which have been carried out at the initiative of Europe's leading stock exchange. The VBO/FEB has investigated the adaptation of each recommendation in line with the Belgian economic and legal context.
5. The VBO/FEB has not made any distinction between the different categories of companies. Some of its recommendations are more specifically intended for large and particularly for listed companies, while the VBO/FEB considers that others could have a very helpful influence on the administration of all companies and may, therefore, be in the interests of their partners.
6. The VBO/FEB considers that, as the introduction to the "Cadbury Code" states, its recommendations must be adapted in accordance with the specific characteristics of each company, and it must be possible to ignore them if they are not appropriate to the company, particularly if it is small.

It therefore asks companies to be guided by those recommendations which they consider to be most suitable to their specific situation.

Specifically with regard to listed companies, the Federation recommends that they should indicate in their Annual Report which measures they are applying in the area of corporate governance.

CODE OF BEHAVIOUR

1. The Board of Directors

- 1.1 The Board of Directors, which is a collegiate body, must meet at regular intervals and exercise effective control over the company and the activities of its Executive Directors.
- 1.2 The division of responsibilities between the Board of Directors and the Executive Directors must be clearly defined. If the chairmanship of these governing bodies is entrusted to the same person, it is necessary to ensure that there are one or more prominent individuals on the Board of Directors who can form a counterbalance to the influence of the Chairman.

This is because it is necessary to ensure that no-one can exercise discretionary powers without control.
- 1.3 The Board of Directors must include non-executive directors, i.e. directors who do not exercise any leading role in the company. They must be sufficiently capable, influential and numerous to assert their point of view and make it count in decisions taken by the Board of Directors.

- 1.4** A number of decisions must belong to the exclusive competence of the Board of Directors, so that the administration and control of the company remain clearly in the hands of that Board.

• *Note*

Apart from its legal powers and powers provided for by the Articles, and apart from the powers of the General Meeting, the Board of Directors decides on what is covered by its powers.

It is the task of the Board of Directors, on a proposal from the Executive Directors, to determine the strategic objectives of the company and the general policy plan, to appoint the management and to develop structures which will make it possible to achieve these objectives, to supervise the execution of the policy plan and the control of the company, and to give the necessary information to the partners.

The Board of Directors also defines the procedures which have to be followed for transactions which are binding on the company, and it defines the cases when the signature of directors is required. It also defines the procedures which have to be followed if decisions have to be taken between two meetings of the Board of Directors.

- 1.5** If there is a Secretary of the Board of Directors, the directors must be able to consult with him and call upon his services. The Secretary of the Board must ensure that the procedures in relation to the functioning of the Board and the regulations which apply to it are complied with.
If there is no Secretary of the Board of Directors, that Board

shall take the necessary action so that a person is given the task of monitoring compliance with the procedures in connection with the functioning of the Board and the applicable regulations.

In both cases he can only be replaced by a decision of the Board itself.

- 1.6** The mandate of the directors is for a limited period and is not automatically extended.

• *Note*

The law stipulates, on the one hand, that the duration of the directors' mandate must not exceed six years and, on the other hand, that they may be re-elected, unless stipulated to the contrary in the Articles of Association.

The obligations, the duration of the mandate and the means of remuneration of directors must be announced at the time of their appointment.

- 1.7** The means of remuneration of directors must be stated in the Annual Report.

• *Note*

The Annual Report must state the method of remuneration of the directors (fixed amounts, bonuses, variable results-linked part etc.).

Large companies in the sense of accounting law are obliged to provide information in the notes to the Annual Accounts on the total remuneration of the directors.

2. Non-executive directors

2.1 The non-executive directors must be able to make an independent judgement on the company's strategy, performance and resources. A recommendation from them is also required for appointments to certain key posts and for the standards of conduct which the company imposes on itself.

• *Note*

The Board of Directors defines the appointments which are within its powers.

2.2 The non-executive directors must be sufficiently numerous in comparison with the executive directors. Some of the non-executive directors may represent the dominant shareholders of the company.

Certain non-executive directors must be independent of the dominant shareholders and also of the management. They are called independent directors.

• *Note*

It is desirable that non-executive directors should not take part in plans in relation to the granting of share options and

should not receive pensions by virtue of their mandate. The reason for this is to ensure their independence.

2.3 Non-executive directors are appointed by the General Meeting on a proposal from the Board of Directors.

• *Note*

According to Belgian law the General Meeting appoints all directors, whether they are executive or not.

For non-executive directors, however, this appointment must take place on a proposal from the Board of Directors. If there is an appointments committee, it should be mostly composed of non-executive directors and chaired by the Chairman of the Board of Directors or by a non-executive director. The appointments committee should make proposals to the Board of Directors, on the one hand for the appointment of non-executive directors, and on the other hand for appointments to certain key posts.

3. The executive directors

3.1 If there is a remuneration committee, it should be exclusively composed of non-executive directors and the remuneration of

executive directors should be submitted to that committee for an opinion.

If there is no remuneration committee, the remuneration of executive directors should be submitted to the non-executive directors.

4. Reports

4.1 The responsibilities of the Board of Directors include producing a comprehensive and objective Annual Report on the situation of the company each year.

• *Note*

This Annual Report and the annual accounts must represent the situation and results of the company and developments under consideration, as clearly as possible and in numerical form. This situation must refer to both successes and failures, in words which are easy to understand.

4.2 The Board of Directors must ensure that objective relationships are developed with the company auditors, based on the highest degree of professionalism.

• *Note*

This recommendation is, of course, only applicable in companies where there is a company auditor.

4.3 The Board of Directors must exercise an audit function. To that end it may set up an audit committee and determine its composition and mandate.

• *Note*

If there is an audit committee, it should comply with the following rules:

a) *It is set up by the Board of Directors, to which it is accountable and to which it must regularly give an account of its mandate. It meets at least twice each year.*

b) *The composition of the committee is determined by the Board of Directors.*

It will ensure that the committee includes non-executive directors and independent directors in the sense of recommendation 2.2.

c) *The company auditors and, if such exist, the person responsible for the internal audit and the financial director, should attend the meetings of the committee.*

These meetings are also accessible to all directors who wish to attend.

d) *The committee should hear the company auditors at least once each year, on an occasion when the executive directors are not present.*

- e) *The committee has the widest investigative powers within its domain and may, by a majority decision, call upon professionals from outside the company and allow them to attend its meetings.*
- f) *The composition of the committee is announced in the Annual Report and the Chairman of the committee replies to the questions which are asked at the General Meeting about the activities of the committee.*

4.4 The Board of Directors has the task of producing the Annual Accounts and presenting them to the General Meeting.

- *Note*
This recommendation corresponds to a requirement of company law.

4.5 The Board of Directors must ensure that an efficient system of internal control is established.

APPENDIX

COMPANY MANAGERS GROUP «CORPORATE GOVERNANCE»

Composition

Chairman: Baron Daniel Janssen, Honorary President of the VBO/FEB and Chairman of the Executive Committee of Solvay

Vice-chairman: Luc Santens, Vice-Chairman of Santens N.V.

Members :

- Luc Bertrand, Director and General Manager of Ackermans & Van Haaren
- Sir Paul Buysse, Executive Director of British Tyre and Rubber
- Baron Dominique Collinet, Chief Executive Officer of Carmeuse
- Christian Dumolin, Chairman of Koramic Building Products N.V.
- Baron Jean Peterbroeck, Director of Petercam
- Thierry Verhaeghe de Naeyer, Chairman of Bekaert N.V.
- François Vincke, Secretary-General of PetroFina, Chairman of the Legal Committee of the VBO/FEB

Secretary : Guy Keutgen, Director and Secretary-General of the VBO/FEB