ECGS CORPORATE GOVERNANCE PRINCIPLES & VOTING GUIDELINES

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Expert Corporate Governance Service (ECGS) is a partnership created in 2001.

ECGS helps institutional investors with global asset portfolios to understand the regulatory diversity in Europe by providing corporate governance research and proxy voting advice based on local market expertise. Governance structures and shareholder rights vary widely in different European or non-European markets depending on legal framework and cultural traditions. Pursuing a consistent proxy voting or corporate governance engagement policy across markets therefore can be challenging for global investors.

ECGS's mission is to provide fully independent corporate governance research to institutional investors and to improve governance standards amongst companies in Europe and the rest of the world. ECGS provides harmonised research and advice that reflects local frameworks. All research is undertaken by experts with in-depth knowledge of the local norms and conditions.

ECGS recognises that a *'one size fits all'* approach is inappropriate but that institutional investors support common international standards. Our voting advice assesses companies against accepted international standards of best practice such as OECD, ICGN and EU recommendations. The ECGS partnership model is unique in balancing local best practice with international standards based on an assessment by the local market expert in light of our ECGS Governance Principles for listed companies.

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TABLE OF CONTENTS

INTRODUCTION

OUR APPROACH

The application of ECGS principles is tailored to fit with the local market and particular circumstances. As a bare minimum, ECGS considers that companies should strive to comply with local market corporate governance codes. Companies should additionally strive to go beyond local practices when possible and work towards emulating national and international best practices in both corporate governance and corporate responsibility. While ECGS principles are written in terms of international best practices, voting advice will be tailored to address unique circumstances as they relate to a Company and the context in which it operates.

ECGS seeks to ensure consistency and fairness in the dispensing of voting advice. Governance principles and voting guidelines nevertheless could not be feasibly issued for all eventualities and in particular situations relevant ECGS partners will exercise their own judgement. ECGS however reserves the right to amend voting recommendations should unforeseen developments arise.

In general, voting recommendations are as follows:

FOR: The proposal reflects acceptable best practices and is not contrary to shareholder interests.

OPPOSE or **WITHHOLD**: The proposal does not reflect acceptable best practices and is deemed contrary to the long term interests of shareholders.

ABSTAIN (only applicable in certain jurisdictions): The proposal raises concerns which are not regarded as sufficient to warrant opposition.

ECGS is first and foremost not in favour of abstaining at general meetings. In this regard, analysts are encouraged to prioritize giving a recommendation to vote FOR or OPPOSE in all cases. In certain jurisdictions, however, abstain votes effectively count as votes against a resolution. ECGS may choose to send a 'softer' message by recommending that shareholders abstain on resolutions in said jurisdictions as long such a course of action is adequately justified.

The ECGS Corporate Governance Principles should be read together with the ECGS Voting Guidelines.

RESPONSIBLE INVESTING

Shareholder voting is a unique tool to mitigate investment risk. Since 2001, ECGS has developed a thorough common review of European best practices in corporate governance. It proactively contributed to several important consultations of the European Commission on governance, banking and remuneration. Having contributed to the July 2010 UK Stewardship Code for institutional shareholders, ECGS reiterated its full support for the 2013 version of the Code emphasizing the importance of an active engagement between investors and management (see ECGS response to the UK Stewardship Code). ECGS promotes its principles and welcomes the development of a European Stewardship Code.

In October 2013, Proxinvest, the French partner of ECGS, participated in the writing of the **Code of Conduct and Best Practices Principles for Proxy Advisors**. ECGS encouraged all members of the industry as well as asset managers and asset owners to contribute to the consultation, and ratified the code.

In 2014, ECGS commented on the European Commission proposal to amend the 2007 Shareholders' rights directive. Among other recommendations, ECGS strongly supports the Commission’s initiative to increase the efficiency of the chain of intermediaries in the voting process. ECGS also took the opportunity to comment on the Commission's suggestion that there should be a better understanding of the role played by shareholder voting research services (see ECGS comments here).

Shareholders and asset managers are accountable for how they monitor investment risk and fulfil their ownership duties. Trading activities driven by short-term considerations can undermine a long term approach and responsible voting. ECGS considers that institutional investors calling for openness and accountability from companies, should, in turn, be held accountable for their own corporate governance practices including the degree of independent voting taking place in their portfolio investments. Alongside encouraging clients to vote in all jurisdictions, ECGS champions cross border voting procedures and promotes transparency among institutional investors by supporting the publication of their corporate governance and voting policies including their full voting records.

EQUITABLE TREATMENT OF SHAREHOLDERS

European countries display important differences over share ownership structures depending on the degree of dispersed ownership of public companies and the presence of large shareholders. Whereas the major issue in companies with a dominant shareholder is minority shareholder protection, in the case of companies with widely dispersed ownership, enforcing all shareholder rights and managerial accountability are predominant. ECGS supports the overriding principle of equitable treatment of all shareholders. ECGS reports will highlight the presence of dominant shareholders in companies and associated corporate governance issues.

In keeping with the notion of equitable treatment, the “one-share, one-vote” principle is of paramount importance to shareholder democracy. ECGS will not support any attempt to implement multiple voting rights, non-voting shares, or the like in order to uphold this principle.

All shareholders that hold voting shares, no matter the size of their holding, should be allowed to attend the shareholders’ meeting, have the right to ask questions, to table questions and resolutions and to vote in person at the meeting. ECGS reports will highlight any limitation to this point.

PUBLICATION OF VOTING RESULTS

Companies (or designated regulatory bodies) should publish details of votes cast or proxies received. The published figures should include the number of shares and/or voting rights that were voted during each resolution and the level of support, abstention (where applicable) and opposition as well as the overall voter turnout.

Corporate Governance Principles

1. Annual Report & Accounts

1.1. General transparency and reporting

Companies are required to disclose on a timely basis all relevant and material information that allows investors and other Company's stakeholders to assess its performance, business model, strategy, financial position and long term prospects. This information should also assist investors in identifying risks and sources of wealth creation.

ECGS expects Company disclosures to be genuinely informative and include forward-looking elements. Companies should additionally disclose environmental, social and governance-related information deemed consequential to their strategy and performance. The use of relevant key performance indicators is strongly encouraged for the purpose of providing shareholders with a historical overview of performance.

As well as reporting financial performance, companies should provide additional information on a range of issues with respect to all stakeholders such as:

- Corporate strategy
- Key Performance Indicators (financial and operational)
- Corporate governance
- Share-ownership structure
- Remuneration policy and arrangements
- Auditor-related policies
- Employment policies, policies on environmental issues, sustainability, community relations and business ethics
- Contentious issues that arise in the year under review
- Conflicts of interests, related party transactions and self-dealing
- Internal control procedures

ECGS is committed to transparency and accordingly urges companies to make available (in electronic form and upon request) all relevant documentation that shareholders may require to make an informed decision on resolutions submitted to general assemblies. Care should be given to provide this documentation in English alongside the relevant local language in order to assist international shareholders in their decision making.

Adequate notice before convening a general assembly is of paramount importance as it allows shareholders to effectively analyse issues to be addressed and hold directors formally accountable. To this effect, ECGS considers that the notice of meeting should be available to shareholders at least one month in advance of annual and extraordinary general meetings.

Late disclosure, material omissions or other serious disclosure related concerns such as the absence of ownership structure details, will compel ECGS to oppose the approval of the annual report and consolidated financial statements.

1.2. Compliance with applicable governance codes

Companies should provide shareholders with an official statement detailing their compliance with all applicable corporate governance codes. Voting on the discharge of liability motion or the adoption of the annual report and consolidated financial statements provides an ideal occasion for shareholders to express their serious concerns about corporate governance and compliance reporting.

A significant failure to comply with the local code or to provide a sincere compliance statement in line with local market requirements will thus compel ECGS to oppose the adoption of the aforementioned resolutions. ECGS will also penalise any incomplete statement of compliance with a "significant" omission or any non-compliance with key structural issues.

1.3. Share structure and voting rights

Share structure should be clearly disclosed including voting rights and other rights attached to each class of outstanding shares. Further disclosures should detail major shareholders and their voting rights as well as any cross-shareholdings or voting agreements.

ECGS strongly supports the «one-*share, one-vote*" principle upholding the democratic notion that shareholder rights and voting power should be proportional to ownership risk. A breach of this fundamental principle will be identified and duly noted in ECGS reports. Contrary to the often touted notion that multiple voting shares promote shareholder loyalty and long-term investment, abandoning the "one-share, one-vote" principle is frequently used by large shareholders to entrench themselves and dominate general meetings to the detriment of minority shareholders. Moreover, academic literature and empirical evidence abound with examples of viable alternatives to combat "short-termism" in the capital markets without resorting to multiple voting rights. These could include the issuance of *loyalty shares*.

The existence of core shareholders with favourable rights to Board representation or other overreaching rights creates potential conflicts of interest and safeguards need to be in place for minority and non-controlling shareholders. ECGS will review the number of shareholder representatives on the Board, and lobby against the over-representation of important shareholders.

2. ALLOCATION OF INCOME AND DIVIDEND

ECGS strongly supports the principle of fair and equal treatment of all shareholders in dividend distributions as one of the key principles of effective corporate governance.

ECGS members will assess dividends on a **case-by-case** basis. ECGS considers that shareholders should have an annual opportunity to vote on each company's dividend policy. In principle, ECGS believes that dividends should be covered by consolidated earnings and/or free cash flow and supported by a strong balance sheet in terms of solvency and leverage.

ECGS members may also take into account local market practice, significant deviations from comparative sector distribution, significant year-on-year changes in dividends, free cash flow and pay-out ratio. In assessing the above, emphasis will be placed on the Board's justification for the proposed dividend and any explanations for significant changes in the dividend policy.

The disclosure of the distribution policy is important for investors' assessment of their investment. Dividends are an integral part of long term return and a declared dividend policy enables investors to optimize financial planning and portfolio allocation.

ECGS urges Boards to take on the responsibility of establishing a sustainable long term dividend policy. Being transparent with regards to a dividend policy improves corporate governance and demonstrates to investors that the Company has a coherent capital allocation plan and is on sound financial footing.

Appropriate disclosures should describe how a dividend policy relates to strategic objectives and additionally note any significant constraints on dividends, including but not limited to structural, legal, accounting, tax, and operational considerations.

3. DISCHARGE OF BOARDS

Proposals to discharge directors of liability for their activities or to approve/ratify management acts appear on general meetings' agendas in many European markets. It is too often considered a mere routine item. These resolutions look very similar on the notices of meetings in different markets, which has led to the erroneous perception that the implications of voting decisions on such proposals are the same across Europe.

The common point is that discharge constitutes formal acceptance of the facts presented. As such, it is the shareholders' endorsement of the Board of directors' management of the Company affairs during the financial year under review.

The approval of discharge may be a mandatory item of the annual general meeting in jurisdictions such as Finland or constitutes an expression of trust requested by companies without any legal requirement for it as in France.

However, granting discharge entails different practical consequences according to the local legal framework. In some jurisdictions such as Austria, Germany, France and Spain, approval of the discharge is not binding and does not preclude shareholders from bringing a claim for damages against directors. Although any decision of the general meeting cannot invalidate legal action against directors for alleged misconduct or negligence, the discharge may in certain jurisdictions weaken shareholder (and/or other parties) recourse against directors. In other markets where a discharge is binding, it may hinder legal claims against directors.

Considering that the discharge entails a formal acceptance of revealed management acts of the Company and has different legal meanings and consequences in different markets, the level of concern is defined with regard to each local market's legal framework. As a general rule, ECGS will refuse the discharge when:

- There are serious concerns over the conduct of Director(s) or relationships with stakeholders: employees, the community, health & safety related concerns and environmental related concerns;
- When serious failures were identified regarding the remuneration system and shareholders were not granted the right to vote on the remuneration system;
- Approval of the discharge is requested despite the absence of the legal requirement for it.

4. Board of Directors

The most obvious difference in corporate structure across Europe is between companies with a two-tier Board, where the executive and supervisory functions are split, and the unitary Board including directors with and without executive functions. Further differences arise in the balance of powers, in decision making and accountability. Additionally, in a number of European jurisdictions, employees have legal rights to Board representation without these members necessarily being subject to shareholder approval.

4.1. Election of the Board members

- **Disclosure**

Disclosure of information about Directors and Boards is critical in enabling shareholders to form a proper judgement when electing and re-electing Directors. ECGS considers that the following information should be disclosed as a minimum requirement:

- Level of independence;
- Directors' individual attendance record at Board and committee meetings;
- Procedures in place for Board and Director appraisals as well as succession planning;
- Director term of office;
- Biographies for all directors including age, core competences, qualifications and professional background (prior to and at the Company), current and recent significant positions in the public, commercial and political domain; interests in the capital of the Company or group, both actual and contingent;
- Contractual terms or terms enclosed in letters of appointment for each director;
- Any factor which may compromise director independence;
- Rationale for appointment or re-appointment of a candidate;
- Process for director nomination and election/re-election;

- **Term of office**

Being accountable to shareholders for their performance, directors should be evaluated on a regular basis. Good corporate governance requires that directors are elected at the annual general meeting for specified terms and submitted for re-election at regular intervals, subject to continued assessment of their performance.

As market practice and legal requirements differ widely across Europe, ECGS generally recommends a maximum acceptable term of office of four years and that nominations are staggered. However, ECGS will accept a five-year term in countries where it is endorsed by legal provisions.

- **Board size**

The Board should not be so large as to be unwieldy. The Board should be of sufficient size for the respective Company so that the balance of skills and experience is appropriate for the requirements of the business and that changes to the Board's composition can be managed without undue disruption.

- **Role of Board committees**

ECGS requires that all companies should establish standing audit, remuneration and nomination committees. Establishing other committees, e.g. a risk committee at financial institutions, may be appropriate in certain cases. The terms of reference for each committee should be made publicly available to shareholders.

Committee membership, frequency of meetings and individual attendance records (including other invited parties), should be disclosed in annual reports.

- **Number of positions**

ECGS considers that shareholders should be assured that directors have sufficient time to devote to the Company in case of exceptional circumstances and to attend meetings on short-notice. To this end, full disclosure of other positions should be provided in the proxy statements, together with the record of each director's attendance at Board and committee meetings. Some European corporate governance codes set limits on the number of external positions that may be held by directors. ECGS will take into account aggregate time commitments and effective attendance to Board and committee meetings while making a voting recommendation.

ECGS deems it excessive when the number of significant positions held by non-executive directors or supervisory Board members exceeds:

- Five non-executive positions ; or
- One executive position and one (external) non-executive position. In this case, ECGS will oppose external positions held by the executive director in other companies when they are put to vote.

Significant external positions include executive or non-executive positions at listed companies or large national and/or international organisations. This rule will not apply to managers of investment companies or trusts and does not include positions at subsidiaries or not-for profit entities.

When assessing the impact of cumulative mandates on workload, ECGS will pay particular attention to audit committee work commitments. Moreover, any Chairmanship in listed companies will always be counted as an equivalent of two Board memberships.

When an applicable corporate governance code is stricter than ECGS guidelines, in line with this code, only a smaller number of directorships will be accepted.

- **One Board seat per Director**

In cases where a director holds more than one seat on a single Board along with the corresponding votes (typically one seat as a physical person plus an additional seat as a representative of a legal entity) ECGS will oppose their election or re-election. If both are proposed for election at the same general meeting, a vote against the legal entity and a vote in favour of the physical person would be recommended provided that other concerns do not exist.

While such occurrences are rare, some examples have been identified in Belgium and France. This practice is not consistent with good corporate governance as it provides double voting rights at the Board level and consequently increases direct influence in Board decisions.

- **Insufficient Attendance**

The Board should meet regularly in order to perform its duties effectively. The annual report or other proxy materials should include a statement of how the Board operates, including a description of the scope of decision-making. The number of Board and committee meetings should additionally be disclosed as well as the average and individual attendance records of directors.

Directors are expected to attend and effectively participate in meetings of the Board and committees on which they serve. Physical attendance is expected at regular meetings. While telephonic or other form of participation by electronic means is acceptable, physical attendance is strongly preferred.

ECGS urges that directors attend general meetings particularly when their positions are up for election or re-election to the Board.

Information on the number of Board and committee meetings and individual attendance records allows shareholders to evaluate the efficiency of Board. ECGS considers a failure by directors to attend 25% or more of all meetings without adequate justification as insufficient attendance and will accordingly oppose their re-election and/or a discharge of liability. Particular attention should be paid to audit committee attendance records.

- **Boardroom diversity**

ECGS encourages Boards to recruit new directors from the widest possible pool of potential candidates. The appointments should be made, on merit, against objective criteria and with due regard for an appropriate balance of skills and experience within the Company, as well as for the diversity of the Board, including gender.

Transparency of the nomination and appointment processes will be reviewed. ECGS would support external propositions advocating for more diversity on the Board if the timescale and the percentage requested are appropriate. Concerns regarding a notable lack of transparency in the nomination process or an insufficient number of women on the Board would be voiced during the election of the nomination committee Chairman. Generally, ECGS will request **a minimum gender diversity rate of 30%**. Shareholders should note that in certain jurisdictions where two-tier Board structures are the norm, an exception to this rule may be made.

- **Election and re-election of Board members**

The composition and effectiveness of the Board is a crucial element in determining corporate performance. ECGS believes it is fundamental that all directors are required to seek regular and individual re-election.

Voting advice in ECGS reports takes into account the overall structure of the Board in terms of its composition, separation of powers, relationship between executive and independent directors and Board committees.

ECGS reports also focus on aspects of directors' appointments which can be clearly assessed: the process by which individuals are appointed, their contractual terms, their independence (in the case of non-executives), and the provision of sufficient information to allow a clear judgement on their experience and potential conflicts of interest. This information should facilitate the following decision-making parameters:

- All connections and relationships past and present between directors and controlling shareholders should be clearly identified;
- The existence and terms of any relationship agreements should be disclosed;
- A majority of the Board should not have any connection to the core shareholders;
- The Board Chairman should not have any connection to the core shareholders depending on the capital structure of the Company;
- All directors, including appointees of core shareholders, should be subject to retirement by rotation;

ECGS strongly supports the UN Principles for Responsible Investment which state "that a robust nominations process is of fundamental importance to Board effectiveness, and that shareholders have an active role to play". It is one of the fundamental rights of shareholders to nominate candidates for Board appointment. Such candidates, subject to a meaningful requirement to hold a certain percentage of a Company's outstanding voting shares, should be nominated directly on the Company's proxy. Shareholders should be permitted to coordinate and aggregate their holdings to reach the required threshold.

ECGS believes that shareholders should have a separate regular vote on the election of each director, with each candidate approved by a simple majority.

- **Slate Elections**

ECGS considers that a slate vote in non-contested director elections, where the number of nominees is equal to the number of director seats and all such nominees have been selected by the existing Board, often with the input of the CEO, is not true shareholder democracy.

ECGS will reject slate voting and make an exception in countries where it is legally required and accordingly directors cannot be elected on an individual basis. In these markets, ECGS will assess each individual standing for election. The election of the entire Board is opposed if there is insufficient independence and there is only one slate of candidates up for election. If more than one slate is proposed, ECGS will support the slate that would improve independence most, if applicable. Should multiple slates exist none of which improve an unsatisfactory Board composition, ECGS will oppose all of them. Additionally, it is incumbent upon companies to disclose the identity of the directors that will occupy the position of Chairman and other key roles within each slate.

Where ECGS has sufficient concerns to abstain from or oppose any individual director's election, it will be reflected in the combined resolution. ECGS will also oppose a list of directors in case of a documented serious controversy or actions by one or more directors deemed detrimental to shareholder interests.

4.2. Election of the Chairman

The Chairman is responsible for leadership of the Board and ensuring that it carries out its functions effectively. ECGS considers that the election of an independent chair is the paragon of good corporate governance. .

As a matter of principle, ECGS believes that there should be a clear division of responsibilities between the Chairmanship of the Board and the executive management of the Company. This division should be clearly established, set out in writing and agreed by the Board.

Given the serious questions of concentration of power raised by combining the roles of Chairman and Chief Executive Officer (CEO), a decision to combine the roles should be publicly justified. ECGS will oppose the combination of the roles of Chairman and CEO in one individual unless it is temporary and adequately justified. In cases where the positions are held by the same individual it is very important that there is a strong and independent element on the Board through the appointment of a Lead Independent Director and having a Board that has a majority of independent directors. Moreover, robust procedures, such as Board meetings without the presence of executives, should be put in place to ensure that the Board functions effectively, and that relevant issues are discussed. Other factors to consider would include the independence rate at Board committees.

ECGS additionally questions the practice in which a current CEO becomes the Chairman of the Board of Directors or Supervisory Board. While this may provide continuity, it risks undermining the Board's supervisory function and may inhibit an objective assessment of management and strategy as well as the initiatives of the successor CEO. A former CEO should not be appointed as Chairman of the same Company, unless the Board provides clear justifications provided that the former executive is not re-appointed as Chairman at the next available AGM. Best practice dictates that companies apply a reasonable cooling-off period before making such an appointment.

4.3. Election of Executive Directors

There should be a clear division of responsibilities at the head of the Company between Board governance and the executive responsibility. No one individual should have unfettered powers of decision.

The Board should include an appropriate combination of executive and non-executive directors (and, in particular, independent non-executive directors) such that no individual or small group of individuals can dominate the Board's decision making.

- **Excessive number of executives on Board**

The number of executives on the Board of Directors should be in line with local best market practice. ECGS will also take into account the general level of independence on the Board and termination benefits while voting on executive directors.

- **Insufficient time available**

Executive directors who hold more than one non-executive mandate are not deemed to have sufficient time to effectively perform their duties. ECGS will express this concern by opposing these non-executive mandates when they are up for re-election.

4.4. Election of Non-Executive Directors

The Board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively.

Independent directors have a crucial role to play in reviewing the performance of the executive membership. They also bring an external perspective to bear on issues where the executive directors face an actual or potential conflict of interest such as remuneration, proposed changes in control or acquisitions and the audit function. They should also strengthen the Board by expanding its range of experience. Such directors need to be remunerated adequately to reflect their responsibilities but the risk of independence being impaired by reliance on fees or other remuneration needs to be borne in mind. ECGS considers that directors should invest at least a substantial part of their fees in the Company's shares in order to align with shareholders' long term interest.

As a general rule, ECGS will retain an independence threshold of at least 50% of all voting Board members including employee representatives (a special rule will be applied to Boards with high level of employee representation, so called "*co-determination system*"), unless a higher independence rate is recommended by the applicable corporate governance code.

In countries where there is a legal requirement for Board employee representatives to constitute from one third to a half of the Board (*co-determination system)*, ECGS retains the minimum independence requirement of at least 33% of the Board members for companies that fall under this legal requirement. Moreover, in certain jurisdictions where several employee representatives sit on the Board even though there is no legal requirement to do so, ECGS may accept an independence rate as low as 33%.

Although ECGS supports the appointment of significant shareholders representatives, no shareholder should be over-represented nor in control of the Board.

- **Independence criteria for the members of the Board of directors**

Factors taken into account by ECGS members which may compromise independence:

- A former executive position within the Company or group (including major acquisitions) or a contract of employment since less than five years except for the CEO who will always be deemed affiliated;
- An association with the business for twelve years (nine years in the UK, Ireland and Italy);
- Relationship through blood, marriage or equivalent to other directors, managers, important shareholders or advisers to the Company;
- Appointment that was made differently than through an appropriately constituted nomination committee or equivalent independent process;
- A material connection with a professional adviser including auditors to the Company since less than five years;
- A side-contract including fees, share options or other conditional remuneration, consultancy payments, pension benefits or benefits from related party transactions above a material threshold;
- Receipt of similar remuneration from a third party in relation to the directorship;
- Cross directorships or significant links with other directors through involvement in other companies or bodies;
- A current or recent senior position with a political or charitable body to which the Company makes or from which the Company receives material contributions;
- A significant (3%) direct holding in the Company's equity or an executive, or otherwise associated with the above-mentioned shareholder (indirect holding);
- Current or recent (since less than three years) involvement at a senior level in another entity with a material financial or commercial interest in the Company either through a shareholding or family link, or as customer, supplier, banker, joint venture partner or competitor or other relevant stakeholder;
- An appointee or representative of a group other than the shareholders as a whole;
- Awarding of remuneration in excess of an amount that could compromise independence;
- Not considered independent by the Company;

4.5. Specialised Board committees

Specialised Board committees are key components of sound corporate governance. Audit, nomination, and remuneration committees play a crucial role in ensuring effectiveness, objectivity, and independence.

The tasks and duties of the Board of directors have increased in recent years and the directors cannot all be expected to have the same degree of expertise in all fields. The extent of the Company's business may require that some directors concentrate particularly on specific matters. Furthermore, the Board will gain in efficiency if the work is shared among its members; this is important in larger and more diversified companies. Lastly, in some areas in which conflicts of interest are likely to arise (audit, remuneration, nomination), independent directors play a key oversight role. The establishment of separate and focused Board committees is one means of addressing such concerns. However, these committees do not replace the Board with regard to matters that fall within the purview of the Board as a whole.

Although the creation of an audit committee is mandatory for all public companies, nomination and remuneration committees are not mandatory in most jurisdictions. Nevertheless, the establishment of said committees, comprising wholly or a majority of independent directors, is recommended in most jurisdictions.

ECGS will recommend opposing the re-election of chairmen and/or members to the aforementioned committees should significant concerns arise regarding:

- Consolidated financial statements and/or compliance reporting;
- Remuneration disclosure, remuneration policy and/or the absence of regular Say-on-Pay proposals;
- The independence and/or diversity of the Board;
- The tenure of directors exceeds four years;

- **Audit committee**

The Directive on Statutory Audits of Annual and Consolidated Accounts requires creation of an audit committee in all public companies composed of non-executive members and a majority of its members shall be independent. Most countries have already required that listed companies establish an independent audit committee with full or majority (including the chair) independence membership. ECGS considers an audit committee consisting solely of independent directors as best practice.

The audit committee is better placed than the entire Board to review questions pertaining to Company finances and control, maintain contact with auditors, and supervise the internal audit function. It is well-established that audit committees play a critical role in ensuring the integrity of financial reporting and promoting audit quality.

To assist shareholders in understanding the operation of the committee, ECGS believes that it should have written terms of reference and that these should be made publicly available. Audit committees should also produce a report of their activities to shareholders as part of the Company's corporate governance disclosures. These should include information on the number of meetings, attendance rates, the issues discussed and whether management representatives were present.

ECGS considers that the audit committee should not be chaired by the Chairman of the Board of Directors or by a former executive director of the Company even after a cooling-off period.

- **Nomination committee**

The nomination committee identifies individuals suitable as directors or executives and analyses their experience and skills prior to shareholder approval in order to ensure the appropriate balance of skills, experience, independence and knowledge of the Company. This will enable directors to discharge their respective duties and responsibilities effectively. The nomination committee prepares the succession planning for the executives and directors.

The preparation of the composition of the Board and the identification of candidates is an ongoing and long term process. The evaluation of the independence of director candidates is part of this process. The Board may improve the efficiency the process by establishing a nomination committee.

According to ECGS, the nomination committee should consist exclusively of non-executive directors, the majority of whom are independent including the chairperson.

The nomination committee should be responsible for the definition and the implementation of an annual self-assessment of the Board, with particular attention to its composition, procedures and activities carried out during the previous year. In the implementation of the self-assessment, the committee should be advised by an external expert, who does not provide other advisory services to the Company and is not connected to executives, directors or the major shareholders. The Board should also periodically (preferably every three years) engage an independent outside consultant to undertake the evaluation. The findings of these evaluations should be disclosed including, where possible, any relevant issues and remedial action taken as a consequence.

- **Remuneration committee**

The Board may establish a remuneration committee which can focus on the development of remuneration schemes for directors, executives, and personnel more efficiently than the entire Board.

ECGS considers that the remuneration committee should be exclusively made up of non-executive directors, the majority of whomare independent.

The remuneration committee should not be chaired by :

- an executive director;
- a former executive director;
- a relative to an executive director;
- an employee
- the Chair of the Board if this position includes high level of remuneration.

The Board ensures that its composition reflects adequate qualifications, experience and expertise, together with a diverse background.

The presence of senior executives of other listed companies should also be limited. ECGS considers that no more than one third of members of the remuneration committee may be executives of other listed companies. Current executives of other companies may have a potential conflict or bias in setting their peers' remuneration, yet they can also have valuable insights into remuneration issues.

The remuneration committee is responsible for preparing all aspects of the remuneration policy in line with the strategic objectives of the Company, which may be both short-term and long term in nature.

In order to fulfil its duties and obligations, the committee should be permitted to employ any necessary resources. It is important that special care be taken to avoid conflicts of interest of committee members and between the committee and its advisors, which could impair members' independence.

The committee should meet regularly with the Company's senior risk officer(s), or others as may be appropriate, to help fully integrate the concept of risk into the remuneration programme.

5. Executive Remuneration

In determining voting advice, ECGS will consider the adequacy of disclosure and the structure of the remuneration system, including but not limited to:

- Whether the overall policy includes target pay levels whereby the Company acknowledges local market sensitivities regarding pay grade and increases;
- Whether overall pay philosophy and structure is linked to sustainable long term value creation for all stakeholders and shareholders;
- Whether executive pay is adequately linked to long term shareholder interests and a wide range of quantifiable and measurable financial and non-financial performance indicators are used for the vesting of short and long term incentives;
- Whether there is a clear description of key remuneration components and their weighting;
- Whether a pay-for-performance principle including a clawback clause and an annual assessment is in place;

ECGS might reflect concerns over the remuneration system on other resolutions (ex: discharge of the Board) if the regular opportunity to vote on remuneration is not provided to shareholders or the remuneration system has not been changed since the last highly contentious vote.

5.1. Disclosure

ECGS considers that the approval of the remuneration system or the remuneration report requires that at least the following elements are provided:

- A detailed description of the principles and mechanisms of the remuneration policy. Such disclosure is vital for assessing whether incentives are in line with the Company strategy;
- A detailed description of each component of remuneration and of employment contracts, in particular the conditions of termination (severance payment, notice period);
- Detailed information regarding the bonus and incentive plans: quantifiable performance indicators, a clearly defined performance measurement period, individual limits or caps, and the scale and scope of vesting. Achievement rates of vested plans should also be disclosed to shareholders;
- Each remuneration component should be disclosed at fair value on the date of grant;
- The disclosure should cover all executive directors active in the year under review and provide remuneration figures for at least the last two fiscal years. As a minimum requirement and in certain jurisdictions, individual figures for the highest-paid executive and aggregated figures for other members of the executive management, describing each component of remuneration, should be disclosed including previous year's figures; and
- A summary of any retirement plans for executive management;

5.2. Overall policy

Executive remuneration packages should fairly reward good corporate performance with remuneration geared to the achievement of targets that are reasonably ambitious but do not encourage imprudent risk-taking (by an individual or group), excessive conservatism or continuation of strategies that are no longer appropriate. The remuneration structure should balance the legitimate interests of directors with the potential cost to shareholders.

ECGS considers that a well-structured remuneration policy should be aligned with the Company's strategic objectives and shareholders' long-term interests. When designing and implementing remuneration arrangements, the Board should be mindful to provide the right level of reward for good performance. It should also ensure that only the necessary level of remuneration is paid and that poor performance is not rewarded. The Board should establish caps for total remuneration and a complete perspective of the remuneration programme should be explained to shareholders.

Aspects to be considered will include:

- The level of base salary compared with market and sector practice;
- The on-target annual bonus or short-term incentive paid compared to fixed remuneration and the cap;
- The on-target long term incentives compared to fixed remuneration and the cap;
- The link between long term performance and Company strategy;

However, each remuneration system should be tailored to the Company as a reliance on relative peer analysis alone may result in unjustified escalations in executive pay.

The remuneration of executive managers may consist of, e.g. non-variable and variable remuneration, share and share-based remuneration schemes, pension schemes as well as any compensation payable due to termination. Variable remuneration comprises various short-term and long-term remuneration schemes, which may be linked to financial performance.

Remuneration policy statements should include a description and explanation for all elements of pay, justification for the choice of performance criteria and targets, a description of how the remuneration strategy fits with overall corporate strategy and key performance indicators. ECGS encourages companies to adopt vesting criteria which are closely related to their strategies and which cannot be manipulated by Board/executive decisions. Specific attention should be applied to identifying and explaining the role of risk management in the context of executive remuneration and measures taken to prevent incentivising excessive risk-taking.

Companies should also refer to the relationship between director and employee remuneration levels. The disclosure of executive-pay ratios (CEO pay as a multiple of average employee pay) and/or targets for them is also favoured. Factors specific to companies should be emphasised rather than relying on a generic market rationale.

Boards or remuneration committees should not have the discretion to amend share scheme performance targets, criteria or performance periods without explicit shareholder authorisation. When considering pay policy, remuneration committees should have access to clearly identified independent advisers, separate of those used by executive management.

Executive directors, including the CEO, should not participate in remuneration committees. Membership by executive directors of other listed companies in remuneration committees should also be limited.

- **Base salary**

Base salaries should be justified by the Company scale and the complexity of assumed responsibilities provided that they are in line with market and sector best practices. A sufficient explanation should be otherwise provided to justify any deviation. The base salary is a pillar of the remuneration structure: the remuneration of executive directors should be built around a fixed salary. ECGS will therefore oppose policies containing a so-called “$1 salary”. Salary increases should be justified and correspond to the general trends and Company developments.

In cases where employees are asked (for instance by means of collective labour agreements) to limit their salary increases, executive management is expected to lead by example.

- **Variable remuneration**

The remuneration policy should be structured with an appropriate balance of short-term and long term incentives. Performance objectives should be consistent with the strategic objectives of the Company and should support the creation of sustainable long term value and achievement of superior performance.

ECGS believes that the remuneration policy should be designed to minimise any abuse and manipulation. The use of multiple and consistent key performance internal and relative metrics can mitigate the ability to manipulate accounting measures or poor business decisions reaching remuneration goals. Any incentive plan (short or long term) should clearly outline performance metric weightings and goals. Companies are also requested to provide information regarding achievement levels of each metric in comparison to executives’ targets, as well as the overall payout percentage per metric.

ECGS considers that the total variable remuneration should generally not exceed 300% of the salary and that at least half of it should be linked to long term performance. Therefore, the maximum annual bonus should not exceed 150% of the salary.

The annual bonus should be well explained, including a thorough description of the performance of the Company in relation to the targets and bonus performance measures. The outcome of the actual bonus should also consider the environment in which the Company operates and should never exceed the pre-set maximum bonus levels.

In general, the level of short-term incentives should not exceed that of long term incentives. In cases where annual bonuses are the lion’s share of the overall pay package, ECGS expects a significant part of this bonus to be deferred or converted into shares with performance conditions and a vesting period of at least three years.

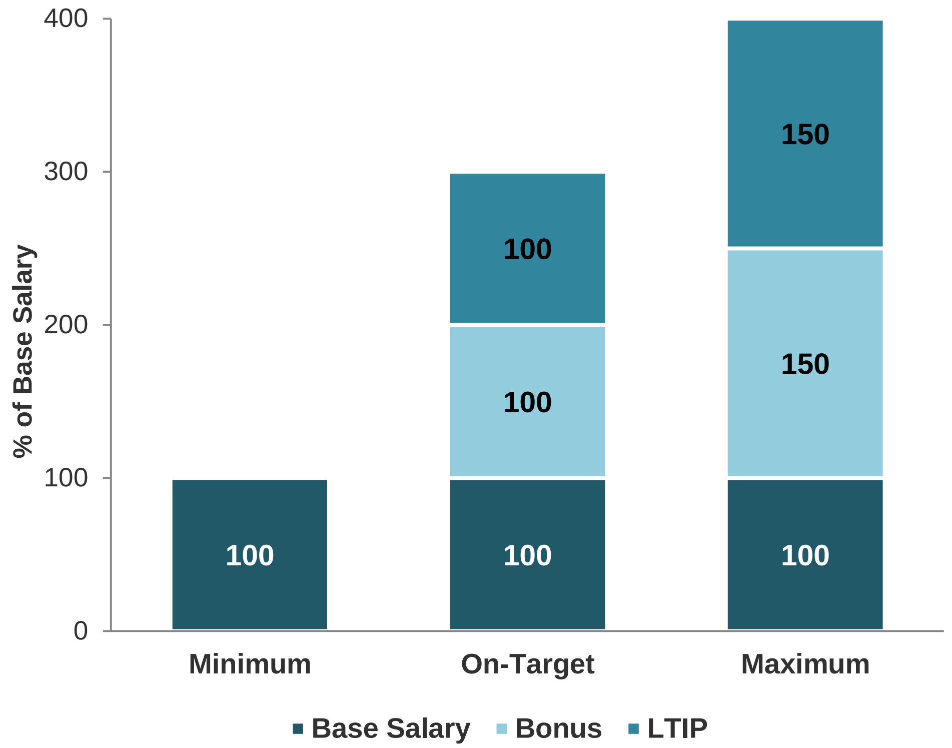
Long term incentive remuneration should consist of an appropriate mix of cash and/or equity and equity-like tools. Any share-based remuneration plan and subsequent potential dilution of shareholders should require prior shareholder approval. Such a proposal should also include a maximum annual limit on individual participation and information on the planned distribution ratio of awards between senior executives and other employees. Long term incentives should have vesting terms that are consistent with the Company’s strategy. As a minimum requirement, vesting of long term incentives should be of three years.

ECGS considers inappropriate any change of long term incentive characteristics, including but not limited to discounted share options, accelerated vesting upon change of control, re-pricing or “re-testing”, or the granting of additional time periods to meet performance hurdles.

Objectives for short and long-term incentives should be set and recorded at the beginning of the performance period. Companies may consider and should disclose any exceptional circumstances in which performance measures may be adjusted, including the process and timing of disclosure of these actions. However, performance measures should never be adjusted after the performance period has past. Companies should seek shareholder approval regarding key amendments to executive incentive arrangements, including changes to performance targets in exceptional circumstances.

The remuneration policy should provide significant flexibility for the Company to recover any incentive remuneration in circumstances where it is later determined to have been unearned or not justified. These polices should extend beyond the basic protections in law, as may be applicable, and should include circumstances beyond intentional misconduct. There should be an annual assessment of the reasonableness of realised pay to avoid unintended outcomes which can be mitigated by discretionary powers of the Board. For example, in the instance of windfall profits resulting from exceptional market circumstances due to oil prices or interest rates, bonus levels should be adjusted.

As a general rule, the total on-target variable remuneration (at fair value on the grant date) should not exceed 200% of the base salary when objectives have been fully achieved. In cases of over-achievement of objectives, the **maximum** variable remuneration should not exceed **300%** of the base salary. At least **50%** of the variable remuneration should be linked to long term performance conditions.



However, these limits are not uniformly applied across all jurisdictions and accordingly may vary based on market conditions and circumstances unique to a particular Company. ECGS may accept higher limits in specific cases where *inter alia* base salary is significantly below peers, overly challenging performance targets are set, compensation is predominantly linked to long term performance, and criteria are assessed against peers.

ECGS could mitigate its voting recommendation when significant improvements have been made compared with the previous year and/or when the vote is binding.

- **Shareholding guidelines**

ECGS is in favour of shareholding guidelines and requirements for executives and directors as an integral component of a Company's equity plan and overall remuneration philosophy. Ownership guidelines, often expressed as a multiple of base salary, serve to align the interests of the management team with those of long term shareholders. ECGS considers that executives should build a significant portfolio of the Company's shares and hold it during their term of office. ECGS expects that companies include requirements to hold some portion of grants for a fixed period of time after departure.

Individuals subject to shareholding guidelines should be prohibited from entering into derivative contracts in order to hedge against their exposure to the Company's shares.

5.3. Termination payments

As a best practice rule, ECGS considers that executive contracts should not include severance payments. Nevertheless, termination payments not exceeding one year of remuneration (base salary and bonus) are generally accepted. This limit includes any possible non-competition clause which should cover a non-compete engagement of at least two years following the departure.

Any potential payment in excess of one year of total cash remuneration may become an issue for ECGS. It will be analysed according to local practice, applicable corporate governance code and specific rules for each jurisdiction. ECGS will accept a higher termination benefit if the executive's total remuneration is not excessive. Thus, the amount of the severance payment will be also taken into account.

ECGS will apply to the termination payment a lower limit recommended by the applicable corporate governance code.

Severance payments should also be limited to the termination of the employment without cause and should be avoided in case of the Company's poor performance compared to peers/industry under the management of the departing executive.

In the event of a change in control, or other corporate event where a loss of employment is realised, only pro-rata performance criteria that reflect a real measure of underlying achievement should be awarded. ECGS opposes any blanket acceleration of the vesting, re-pricing or change of the performance conditions of equity incentives without special shareholder approval. All changes to executive incentives made after the beginning of the performance period should be assessed by shareholders on a case-by-case basis.

5.4. Pensions and other post retirement payments

Companies should disclose the annual pension cost and pension contributions. As a deferred remuneration not linked to performance, pensions should be limited with regards to the total remuneration. In defined-benefit plans, the acquisition of pension rights should be granted proportionally over time (subject to seniority). The pension arrangements for each executive should be disclosed properly and should be in line with market practices. Disclosures related to defined benefit pension programmes should include an estimate of the actuarial present value accrued during the applicable year and an estimate of the expected benefit at normal retirement age. These disclosures should cover the specific pension of each individual executive.

5.5. Executive incentive schemes

Employment markets (affecting recruitment, retention and motivation), legislation, taxation rules, compensation structure (basic salary, incentive awards and benefits) and overall complexity differ significantly across European countries. These differences will be taken into account when assessing whether to recommend approval of a proposed share scheme.

The ability of shareholders to authorise executive incentive schemes varies by jurisdiction. If shareholders do not have the opportunity to vote separately on executive share schemes, ECGS will apply its voting policy to the annual vote on the remuneration report or to the share issue/repurchase authorisations used to fund these schemes.

As a minimum, ECGS considers that all executive incentive schemes across all markets should adhere to the following conditions:

- A target and maximum level of award expressed as a percentage of the base salary is specified;
- Performance conditions (in addition to share appreciation) are applied and disclosed;
- Dilution should not exceed 10% of the issued share capital over 10 years for all share schemes in operation by the Company and 5% for a proposed scheme;

As a matter of principle, the plan should comprise minimum and maximum vesting levels. In the case of a certain level of underperformance, no award should vest. ECGS does do not consider a period of employment as a performance criterion. Plans based only on a retention arrangement will usually be opposed. In order to assess the link between pay and performance, the level of attainment of the performance criteria as well as the effective number of awards released at the end of the performance period should be disclosed.

Pursuing sustainable long-term value creation for shareholders and more broadly, stakeholders, should be a core component of any sound compensation policy. To this end, barring any unusual circumstances, variable compensation should be more heavily weighted toward long-term incentives. Guidelines should particularly reflect the following conditions:

- At least 50% of variable compensation should be long term;
- There should be a clawback clause if it is not already covered by local laws;
- In case of underperformance, the final award of LTI should be zero. The maximum variable remuneration (in case of outstanding performance) should generally not exceed two times the target grant and should be conditional on the attainment of very challenging performance conditions. Non-linear pay-out schedules or vesting schemes should be avoided;
- There should be an annual assessment of the reasonableness of pay-outs to avoid unintended outcomes which can be mitigated by discretionary powers of the Board. For example, windfall profits resulting from exceptional market circumstances due to takeover bid premiums should be accounted for;

ECGS considers that the dilution based on commitments to issue new shares or re-issue treasury shares should not exceed 10% of the issued share capital for all share schemes in operation by the Company over 10 years and/or 5% for the proposed scheme.

Regarding options, the exercise price should not be below the market price on the day they are issued. Options, and equity-based incentive schemes in general, should vest based on the achievement of performance criteria which should ideally include a criterion relating to the future changes in the share price (ex: total shareholder return).

- **Convertible warrants**

As the subscription price is usually not disclosed to shareholders at the date of the shareholders' meeting (most of the time the subscription price will be set later by an independent expert), shareholders do not have the opportunity to influence the issuance price and ECGS will therefore analyse the proposal as a standard option issue. However, if the subscription price is disclosed before the shareholders' meeting, ECGS will evaluate whether executives will be paying a fair market value. Under said conditions, ECGS may consider recommending shareholders to support an authorisation greater than 2% of the issued share capital.

6. Employee Incentive Schemes

Incentive schemes for employees vary considerably across markets. Frequently they are the result of country specific legislation and tax regulations. In principle, ECGS is supportive of schemes which enable all employees to share risk and business success unless the dilutive impacts of the plan are too costly to the shareholders.

6.1. Employee Stock Ownership Plan

ECGS is in generally in favour of Employee Stock Ownership Plans (ESOPs). These plans help align the interests of employees with those of their companies by requiring them to purchase shares of the sponsoring employer (typically at a discounted market price). Thus, in order to promote employee share ownership, ECGS will support ESOPs if:

- Employee incentive schemes allow for the issue of new shares or re-issue treasury shares (in aggregate with all other schemes) not exceeding 5% of the issued share capital or 10% of issued share capital over a 10-year rolling period;
- No discount will be admissible under the following conditions: (i) employees own more than 10% of the capital; (ii) the plan does not require a minimum holding period of three years; or (ii) the proposed discount is higher than 20% of the market price;

In some jurisdictions, employee share ownership can be used by management as an anti-takeover defence. To ensure that ESOPs are not used toward such ends, ECGS will not support any new capital increase for employees if:

- Management interferes in the exercise of voting rights by employees or their ESOP funds;
- Employee share ownership exceeds 5% of the issued share capital (new authorisation included);

6.2. Restricted shares

Restricted shares can be granted to employees and do not require a personal financial investment of the beneficiary. As the Company does not receive any new cash inflow, the dilution impact on shareholders is stronger. As a general rule the maximum authorised percentage will be limited to 5% over a 10-year period. A higher authorisation may be agreed when challenging performance conditions apply.

7. DIRECTOR FEES

The policy statement should address non-executive directors' remuneration. Performance-related or dividend-linked remuneration, such as bonuses or share options, is considered inappropriate for non-executive directors as it may inhibit objective reviews of strategy. Non-executive directors should not in principle receive variable remuneration which is performance based as it can tie their interests with those of senior management. This type of remuneration could result in collusion between the Board and executive management and consequently a loss of objectivity in oversight and control duties.

Most codes of best practice recommend that non-executive interest in the Company takes the form of blocked shares. Stock options must be prohibited as the speculative nature of stock options could prompt the Board to take too great an interest in the short-term share price rather than in creating long term value. Non-executive directors should not be entitled to pension benefits or severance pay.

In countries where it is legal, ECGS is in favour of the partial payment of directors' fees in Company shares in order to align their interests with the long-term interests of shareholders. Directors should gradually build up a portfolio of Company shares that they must keep for the whole duration of their mandate or until they retire from the Board. In any case, the equity-based component should not represent a significant portion of non-executive remuneration.

ECGS questions practices when proposed fees increase significantly and/or exceed sector and market cap average without adequate justification by the Company. ECGS considers that the non-executive Chairman's fees should not significantly exceed the average fees of the other non-executive directors.

8. Auditor Election

8.1. Auditor’s independence

The independence, objectivity and effectiveness of external auditors are of vital importance to shareholders, both with respect to companies they audit and their public policy function of ensuring confidence in financial reporting. The audit committee should have primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditors. When voting on the auditors’ re-election, ECGS will take into account:

- The proportion of fees paid for non-audit work against audit work during the year;
- The proportion over a threeyear period;
- The type of fees paid;
- Links to the Board or senior management;
- The auditors’ terms and change in the lead audit partner;

- **Significant link between a director and the current auditor**

ECGS will oppose the re-election of the auditor if there is a recent significant link (within the past five years) between a director and the current auditor. A link is considered significant when either was directly involved with the relevant Company or was a senior partner of the regional office or industry division. If the respective director is up for re-election, ECGS would instead oppose his/her election.

- **Auditors’ term of office**

Since 2013, ECGS has required companies to regularly put the external audit contract out to tender and to ensure auditor rotation. Therefore, ECGS will not support re-election if the audit firm has been in office for more than a maximum initial engagement period of 10 years. If it is allowed by the country’s legal provisions, the initial engagement period may be extended by a further 10 years where an audit tender has taken place. ECGS will apply a shorter initial engagement period for a mandatory audit firm rotation if the EU Member States have implemented a stricter option.

ECGS recommendations echo the term limits found in the EU Regulation on specific requirements regarding statutory audit of public-interest entities (537/2014/EU). However, the Regulation includes general transitional periods for the treatment of incumbent auditors. Complicating matters further is the fact that Member States have also adopted their own transitional periods. ECGS will not heed said transitional periods, as they clearly favour incumbent auditors, and will implement the conditions of the Regulation itself.

- **Change in auditor**

Shareholders should also closely monitor any changes in external auditors. The Board should explain why the external auditor has not been re-appointed. Similarly, if the external auditor resigns without explanation, it is incumbent upon the Company to provide one.

- **Significant concerns over the external audit process**

The 2012 UK Corporate Governance Code introduced a requirement for the audit committee to explain in the annual report how it has assessed the effectiveness of the audit process. ECGS urges other companies outside the UK to disclose said statement. Such disclosure intends to increase the transparency of the external audit process and the accountability of the auditor to shareholders. If there are significant concerns over the external audit process shareholders should oppose the election of the auditors.

8.2. Non-audit work

ECGS believes that audit firms should not be employed to provide consultancy services to the management or to undertake an independent audit on behalf of shareholders at the same Company or group. ECGS considers that commercial interests other than the audit of the Company accounts can create a real or apparent conflict of interest and compromise auditors in their ability to confront directors on sensitive issues.

Shareholders should be furnished with sufficient information on the nature of other services provided to be able to make an informed judgement on the work undertaken and assess whether independence has been compromised (in fact or perception). ECGS believes that companies should provide the highest transparency regarding the description of fees paid to auditors. When audit-related fees are not sufficiently detailed, they will be recorded as non-audit fees. In some cases, certain fees may be classified as audit-related although they explicitly pertain to the audit process (ex: Interim report audits). Under such circumstances, ECGS may record said fees as audit fees.

- **Non-audit fees paid to audit firm**

ECGS recommends a maximum ratio of non-audit to audit fees in order to strengthen the independence of statutory auditors. If non-audit fees equal to or are greater than the audit fee in the year under review and/or greater than 50% over the last three consecutive years, ECGS will recommend that shareholders oppose the re-election of the auditors.

The local partner has to take into account the type of fees charged and can amend the vote accordingly, for example when exceptional items relate to non-audit services required by local legal provisions.

Certain audit companies are so small that fees received from a single client may constitute a substantial proportion of their turnover. In order to ensure the independence of the audit process, total remuneration should not exceed 10% of the auditing firm revenues.

In jurisdictions where auditor re-election and remuneration are proposed in two separate resolutions, ECGS will oppose the remuneration and approve the re-election in the absence of other concerns.

- **Non-disclosure of audit or non-audit fees**

The way fees paid to external auditors are presented varies widely across jurisdictions. Therefore, the disclosure of all fees paid by the Company or group to auditors and their breakdown between audit and other services, in particular consultancy services, become essential to shareholders when assessing the independence of external auditors. ECGS will accordingly oppose the re-election of auditors if companies fail to disclose the proportion of non-audit fees paid in the year under review.

8.3. Alternate auditors

Sometimes, applicable laws require companies to appoint an alternate auditor who will replace a statutory external auditor in the case of a sudden vacancy in the position, including in case of any conflict of interest. These alternate auditors perform no functions while the appointed auditors fulfil their duties.

These legal rules aim to provide protection to shareholders and to assure the continuity of the audit process without calling an extraordinary meeting. However, some companies do not consider this item as an important issue and propose to elect as alternate auditor an associate or partner or other affiliate of the statutory auditing firm. ECGS requires companies to thoughtfully choose an alternate auditor capable of carrying out the audit in a transparent manner free of any conflicts. The appointment of an associate or partner or other affiliate of the statutory auditing firm is not in line with the legal obligation to avoid any possible conflict of interest.

9. SHARE ISSUANCES AND REPURCHASES

9.1. Share issuance with and without pre-emption rights

ECGS considers that pre-emption rights are a cornerstone of shareholder protection against inappropriate dilution of their investments. This fundamental right is often enshrined by law, which provides that pre-emption rights may be disapplied by a special resolution of shareholders at a general meeting of the Company.

A degree of flexibility is however appropriate in circumstances where the issuance of equity securities on a non-pre-emptive basis would be in the interests of companies and their shareholders.

A general authorisation in which pre-emptive rights are waived (with no specific purpose) should disclose strict dilution and time limits. ECGS will oppose any such authorisation in the absence of said limits. Different thresholds may alternatively be applied depending on the jurisdiction in question before recommending a vote on such resolutions. ECGS does not apply general limits when the objective of a specific authorisation is justified on a case-by-case basis.

- **General capital authorisations with pre-emption rights**

ECGS considers as excessive any general capital authorisation with pre-emption rights exceeding 50% of share capital (including all valid outstanding authorisations) or authorisation requested for a period longer than two years (five years will be applied in Germany, Spain and Italy).

- **General capital authorisations without pre-emption rights**

General capital authorisations without pre-emption rights for unspecified beneficiaries and/or for unspecified projects should be limited to 10% of share capital (including all valid outstanding authorisations); excluding employee share schemes (+10% over ten years).

This principle should apply to all equity issues undertaken to raise cash for the issuer or its subsidiaries, irrespective of the legal form of the transaction. For example, a “cashbox” transaction may be structured as an issuance of equity securities for non-cash consideration falling outside the scope of statutory pre-emption. A "cash box” structure refers to a method of raising cash from the issue of equity securities for a non-cash consideration through the acquisition of a special purpose vehicle whose principal asset is cash. Such a transaction should be accordingly treated as an issuance of equity securities for cash subject to the limits herein.

For the purposes of upholding these principles, the massive sale of treasury shares to the market without pre-emptive rights may be treated as an issuance of new shares while controlling for dilution. Instruments convertible into shares issued non-pre-emptively pursuant to a general disapplication of pre-emption rights will be counted within the limits set.

Requests for a general disapplication of pre-emption rights in excess of the size criteria mentioned above should thus be made only when a Company is in a position to justify said approach. Should this not be possible, a general meeting is to be convened to deliberate on and potentially approve the proposed issuance. ECGS will generally oppose said requests should issuers fail to provide a convincing business case.

When issuing equity securities without pre-emptive rights, companies should aim to ensure that they are raising capital on the best possible terms in order to avoid unnecessary dilution of existing shareholders. This is particularly the case when the proposed issue is made under circumstances where the share price may reasonably be expected to rise as a result of the proposed equity issue. Best terms also dictate avoiding said issuance when related or contemporaneous transactions or potentially harmful developments (of which directors are aware) may exist. Any discount at which equity is issued for cash will be of concern, but companies are recommended, other than in exceptional circumstances, to restrict the discount to a maximum of 5%.

The annual report published following a non-pre-emptive issue of equity securities pursuant to a general disapplication of pre-emption rights should include the following information:

- Actual discount levels achieved;
- Net proceeds raised;
- Uses of net proceeds; and
- Percentage increase in issued share capital due to non-pre-emptive issuance for cash over the three-year period preceding the issue;

- **Equity securities issued, with and without pre-emption rights, for regulatory capital purposes**

Other than in the case of instruments, such as contingent convertible bonds, issued by financial institutions for regulatory capital purposes, the initial conversion price of these equity securities should not be lower than the market price of the underlying shares at issue date.

- **Capital increases for a special purpose, with or without pre-emptive rights**

ECGS will assess requests for capital increases for a special purpose on a case-by-case basis. However, to make a reasonable assessment, shareholders need to receive a clear explanation of the purpose and benefits of the proposed transaction. The Company should clearly explain in the documents for the general meeting how the proposed issuance satisfies financial needs and promotes the long term interest of the majority of stakeholders.

ECGS will also oppose any capital increase intended to fund a share-based incentive plan the main characteristics of which are incompatible with ECGS principles.

- **General authority to issue shares as an anti-takeover defence**

ECGS is opposed to any general authorisations intended as anti-takeover defences. Examples of unacceptable protective devices include capital increases, issuance of special classes of shares or of ‘poison pills’ such as free warrants for shareholders during public takeover periods.

9.2. Share repurchases and capital reductions

- **Authority to repurchase shares**

The Board should endeavour to provide justification for share repurchases including whether they represent the best use of Company resources at the expense of investments, acquisitions, enhanced dividends or alternative means of returning value to shareholders. A long term capital management strategy should concurrently be disclosed in which the scope and combination of share repurchases and capital increases are detailed.

Voting rights attached to shares held by the Company or a management-controlled trust should not be used at management's discretion. Shares held in treasury may act as a poison pill, increasing the cost of a change in control. ECGS reports will take into account local market practice when assessing the voting recommendation including but not limited to:

- The overall limit of the authority and timeframe;
- The maximum share purchase price compared with market price on purchase date;
- Whether a share repurchase is allowed during a public takeover;
- The strength of the balance sheet and future projections of earnings and cash flows. Share repurchases should be aimed at redistributing excess cash (or capital), but they should be avoided if they lead to a deterioration of the Company's overall (financial) risk profile or are not in line with the Company's long-term strategy;

- **Authority to reduce share capital**

The reduction of share capital can be made by cancellation of repurchased shares or by reduction of the share par value. Any proposal to reduce share capital must be justified by the Board. In principle, ECGS will oppose share cancellations, which significantly deplete cash flow provided that a Company is not able to pay a dividend.

Share capital can be also reduced by reimbursing a part of the par value of shares, thereby returning capital to shareholders, sometimes in lieu of or in addition to a dividend. Unlike the dividend, the reimbursement of par value is not subject to tax.

In principle, the reduction of par value does not negatively impact shareholder interests. However, in some markets, a par value reduction would reduce shareholder rights. For instance, in Switzerland the right to propose an item on the agenda of an annual general meeting is contingent on holding a certain amount of nominal value (1 million Swiss francs). Thus, ECGS will oppose this reduction of capital if it undermines shareholder rights unless the Company accordingly amends its Articles of Association.

Placing an item on the agenda is a fundamental shareholder right. A decrease in share capital (by cancelling shares or reducing their par value) without a commensurate decrease in the value of shares required to exercise said right constitutes a deterioration of shareholders' rights which is not acceptable.

10. CHANGES IN THE ARTICLES OF ASSOCIATION

The Articles of Association form the basis for the exercise of shareholder rights and the protection of their long term interests. Changes to these articles consequently require shareholder approval. ECGS reports will consider proposed amendments with particular care to ensure that changes do not negatively affect shareholders.

Where a number of changes are proposed in a single resolution, voting advice will reflect judgment on the balance of the changes. It is the view of ECGS that companies should make available in full the existing version. ECGS considers best practice to put separate resolutions relating to amendments of the Articles of Association according to the type of amendment requested rather than bundling all changes into one resolution.

- **Reduction of shareholders' rights**

ECGS will oppose any proposed change that reduces shareholders' rights even if several otherwise innocuous or favourable amendments are proposed in a bundled resolution with an amendment having a significant negative impact on shareholders' rights.

ECGS considers that, among others, the following amendments to the Articles of Association may adversely impact shareholder rights and the long-term interests of a Company:

- Creation of multiple voting rights;
- Creation of preferred shares or non-voting shares;
- Introduction of a voting cap or other restriction on voting rights;
- Introduction of supermajority vote requirements;

11. Mergers and Acquisitions

ECGS will analyse mergers and acquisitions proposals on their individual merits including but not limited to:

- Whether the strategic rationale is in line with long term Company objectives;
- The financial terms deemed relevant by the analyst;
- The possible impact on shareholders' rights or corporate governance;
- The potential impact on other stakeholders and their long term interests ;

Given the importance of strategic operations (M&A and others) that are typically proposed at EGMs, notice periods should be as long as feasibly possible, at least 21 days or longer. Where applicable, a period of 30 days or longer is preferred. Complete information and an adequate justification needs to be provided together with an assessment of the likely financial and strategic impact on the Company and its stakeholders. A fairness opinion made by an independent institution is necessary for shareholders to make an informed decision.

12. ANTI-TAKEOVER DEFENCES

ECGS opposes in principle general authorisations used for takeover deterrence. Such devices may lead to management entrenchment and could be detrimental to the long-term interests of shareholders. Unacceptable anti-takeover defences include special Board appointment rights, ‘poison pills’, voting caps, and issuance of classes of common shares with different voting power.

However, during a hostile takeover, ECGS will assess the proposed authorisations to use anti-takeover defences on a case-by-case basis. Consideration will be given to the acquirer’s objectives and track record and the long term interest of the Company and its stakeholders.

13. CORPORATE SOCIAL RESPONSIBILITY

ECGS will review the environmental and social dimensions of significant actions undertaken by companies that are of concern to shareholders. The following parameters will be addressed:

- Standards (local and/or other) against which CSR reporting has been prepared;
- Environment;
- Employees;
- Community;
- Business Ethics;

Moreover, other meaningful parameters may be used including any on-going legal action and/or investigations.

14. MISCELLANEOUS

14.1. Political donations

ECGS does not favour the use of shareholder funds to support political organisations. However, exceptions can be made after careful consideration of donation limits proposed by companies and how they will be used during the year under review.

For the UK, the authorised aggregate amount of political donations should not exceed £100,000.

14.2. Luxury or non-tax-deductible expenses

In countries where shareholders are provided with the opportunity to vote on luxury or non-tax-deductible items, these expenses should be properly disclosed and justified particularly if they are deemed to be material.

15. SHAREHOLDER RESOLUTIONS AND COUNTERMOTIONS

Shareholder resolutions are an integral part of the corporate governance process. They enable shareholders to take the initiative on issues which directors may be unwilling to address or where directors may face a conflict of interest. In assessing voting advice on a resolution proposed by a shareholder, ECGS will consider the following questions:

- Is the matter appropriate for the General Meeting?
- Is it adequately justified by its proponents?
- Is the proposal in the long-term interests of the Company and of all stakeholders?

ECGS recommends supporting shareholder resolutions that respect its principles and aim at improving corporate governance or enhancing the social and environmental responsibility of a Company. While assessing a shareholder proposal, ECGS also takes into account its specific context, market best practices and whether it is in the long-term interest of a Company and/or its main stakeholders.

16. EXTRAORDINARY GENERAL MEETINGS

ECGS will issue voting recommendations on a case-by-case basis, considering but not limited to:

- Background information;
- Financial information;
- Strategic analysis;
- Shareholding structure and corporate governance impact;

2019 VOTING GUIDELINES

Voting Guidelines should be read together with the ECGS Corporate Governance Principles.

1. Financial Reporting

1.1. Annual report and accounts

VOTE FOR the proposal**. ECGS will OPPOSE the proposal if** one or more of the following conditions apply:

a. The annual report and/or other proxy materials have not been publicly disclosed at least 21 days prior to a general meeting.

Note: *Whereas current legislation in several jurisdictions calls for a minimum period of 21 days, a minimum of 30 days is preferred in order to give shareholders sufficient time to analyse documents prior to a general meeting.*

b. Contrary to market practice, the annual report and/or the notice of meeting were not issued in English.

c. Material omissions and/or other serious concerns in terms of disclosure, quality, sincerity and comprehensiveness are detected in the information provided to shareholders.

d. A modified opinion (namely, a qualified opinion, an adverse opinion or a disclaimer of opinion) is expressed by the external auditor regarding the financial statements.

e. Serious concerns are detected in the audit process.

f. There are serious concerns about corporate governance in situations where ECGS prefers to focus its opposition on the annual report and accounts rather than on the discharge of liability or when there is no resolution to discharge the Board.

g. The Company significantly fails to comply with the applicable corporate governance code or fails to provide an adequate compliance statement in line with local market requirements.

h. The Company provides an incomplete “comply or explain” statement with a “significant” omission concerning key structural issues such as the combination of roles, composition or responsibilities of the Board and Committees.

Note: *ECGS will OPPOSE the adoption of the annual report and/or consolidated financial statements rather than a discharge of liability proposal in the presence of serious concerns about corporate governance and compliance reporting.*

France: ECGS will OPPOSE the adoption of the annual report and/or consolidated financial statements if the vote is bundled with a discharge of liability proposal.

1.2. Allocation of income and dividend

- **Annual cash dividend**

ECGS members will assess cash dividends on **a case-by-case** basis. **ECGS will OPPOSE the proposal if** one or more of the following conditions apply:

a. An inadequate justification for a cash dividend is provided in situations where one or more of the following is observed:

- A significant deviation from comparable companies in the relevant sector or the local market ;
- A significant year-on-year change;

b. The dividend is not covered by earnings and/or Free Cash Flow (FCF). ECGS may tolerate a dividend in excess of FCF for one or more fiscal periods so long as the Company's financial position is not jeopardized in the process.

c. An inadequate justification is provided for significant changes in the dividend policy or that said changes are not in line with the long term interest of shareholders.

d. A share repurchase program replaces a cash dividend.

e. In the case of a financial institution such as a bank in which a dividend is proposed in the same general meeting as an authorisation to issue capital (ordinary shares, contingent capital, and or other forms of capital) intended to cover regulatory capital requirements (ex: Tier 1 capital).

Note: *Free Cash Flow (FCF) = Cash flow from Operations (CFO) – Capital Expenditures (CapEx). Analysts are nevertheless encouraged to address other elements that they deem could materially impact cash flows over several years. These include but are not limited to an acquisition-driven strategy that generates significant recurrent cash outflows and a material disposal of assets used to pay a one-time extraordinary dividend. Such decisions should ideally be weighed against recent historical sales growth and current indebtedness. As such analysts may depart from the definition herein should they deem that certain conditions unique to a Company in question justify doing so.*

France: ECGS will vote FOR the approval of an increased dividend amounting to10% of the ordinary dividend and payable to any shareholder who has held registered shares for at least two years. The number of shares eligible for the increased dividend may not exceed 0.5% of share capital per shareholder.

- **Stock (scrip) dividend**

ECGS members will assess stock (scrip) dividends on **a case-by-case** basis. **ECGS will OPPOSE the proposal if** one or more of the following conditions apply:

a. A stock (scrip) dividend replaces a cash distribution without adequate justification.

b. A stock (scrip) dividend is issued at a discount that is not deemed reasonable and/or is not in line with the interest of all shareholders.

Note: *where applicable and provided that the information is available, analysts should include information on applicable discounts when analysing scrip dividends.*

France: ECGS will oppose scrip dividends should they be issued at a discount so as to avoid triggering arbitrage opportunities.

- **Dividend in kind**

ECGS members will assess dividends in kind on **a case-by-case** basis. A vote AGAINST the proposal is recommended if an inadequate justification is provided for the replacement of a cash dividend with an allotment of shares or other securities.

- **Capital repayments and exceptional distributions**

ECGS members will assess capital repayments and exceptional distributions on **a case-by-case** basis. A vote AGAINST the proposal is recommended if one or more of the following conditions apply:

a. Capital repayments and exceptional distributions are not consistent with the Company's financial situation and its long term financial viability.

b. A capital repayment through nominal value reduction replaces a dividend for the purpose of restricting the fundamental shareholder right to place an item on the agenda of annual general meetings.

1.3. Discharge of Boards

VOTE FOR the proposal**. ECGS will OPPOSE the proposal if** one or more of the following conditions apply:

a. There is no legal requirement for the Board to request a discharge and granting discharge may weaken legal recourse of shareholders and other parties against directors and/or executives.

b. The detection of serious concerns about Board conduct in Company affairs and/or relationships with stakeholders: shareholders, employees, suppliers, State bodies and the community.

c. ECGS has serious reservations about corporate governance, social and environmental issues.

d. A modified opinion (namely, a qualified opinion, an adverse opinion or a disclaimer of opinion) is expressed by the external auditor regarding Board conduct and/or serious shortcomings are detected in the exercise of Board duties.

e. Shareholders were not granted the right to regularly vote on remuneration and serious failures were identified regarding the remuneration system or its transparency.

f. Legal proceedings have been initiated or a criminal conviction was brought against the Board or its member(s) concerning conduct in Company affairs.

g. The size of the Board has persistently remained below 4 members.

h. A notable deterioration of the Company's financial situation due to successively poor financial results, large impairments or significant new litigation provisions compared to the industry/sector.

i. The Board is responsible for decisions that constitute a major environmental or social risk or it does not recognise the major environmental/social issues that the Company faces.

j. There are valid accusations against the Company for serious violations of internationally recognised human rights in local communities and labour rights or the Company is complicit in such violations along the supply chain.

Note: *In the event where a discharge of liability is not put to a shareholder vote and potential misconduct or concerns to such an effect are detected on behalf of the Board and/or its members, ECGS may oppose the adoption of the annual report and/or consolidated financial statements or the election of Board members.*

1.4. Related-party transactions

VOTE FOR the proposal**. ECGS will OPPOSE the proposal if** one or more of the following conditions apply:

a. The annual report and/or other proxy materials do not provide sufficient and relevant information about related-party transactions.

b. Proposed related-party transactions are not compatible with the interests of all shareholders.

Note: *In the event where related-party transactions are not put to a shareholder vote and concerns regarding said transactions arise, ECGS may oppose the adoption of a discharge of liability, the annual report and/or consolidated financial statements, or the election of Board members implicated in and/or benefiting from said transactions.*

2. Board of Directors

2.1. Election of Directors (executive or non-executive)

VOTE FOR the proposal**. ECGS will OPPOSE the proposal if** one or more of the following conditions apply:

a. A nominee with an incomplete profile which includes insufficient information regarding *inter alia* career description, personal details, external positions, shares held, and/or independence evaluations by the Board.

b. Mandates for non-independent directors exceeding four years provided that they are in jurisdictions where the prevailing corporate governance code or market practice limits director mandates to four years.

c. An excessive number of significant positions held in which one of the following is observed:

   i. The cumulative number of significant non-executive positions held by a nominee exceeds the lesser of five and the maximum number of such positions accepted by local best practices.

   ii. In the case where a candidate is nominated for an executive position, the number of significant external non-executive positions held exceeds the lesser of one and the maximum number of such positions accepted by local best practices. (*Note: here ECGS will only vote against external non-executive positions in excess of the aforementioned limits*).

Note: *When assessing the impact of cumulative mandates on workload, ECGS will pay particular attention to audit committee work commitments. Moreover, any Chairmanship in listed companies will always be counted as an equivalent of two Board memberships.*

Significant external positions include executive or non-executive positions at listed companies or large national and/or international organisations. This rule will not apply to managers of investment companies or trusts and does not include positions at subsidiaries or not-for profit entities.

d. A nominee has missed 25% or more of all meetings (of the Board and/or committees) without adequate justification.

e. A nominee holds more than one seat (and their respective votes) on a single Board, typically one seat as a physical person plus an additional seat as a representative of a legal entity. (*Note: if positions are put to a vote during the same general meeting, ECGS will vote for the former and against the latter*).

f. A nominee has a major conflict of interest that is incompatible with Board membership.

France: ECGS will OPPOSE the election or re-election of nominees who perform consulting services for the Company. The related-party agreement establishing such a consulting arrangement will also be opposed.

g. A nominee with a record tainted by documented controversial behaviour including but not limited to actions harmful to shareholder interests.

h. A nominee has been convicted of criminal charges that would compromise his/her integrity and professional reliability. (*Note: nominees under investigation for misconduct or indicted for criminal charges will be assessed on a case-by-case basis*).

i. A nominee for a non-independent non-executive position to a Board lacking independence.

__Note:__ *As a general rule, ECGS will retain an independence threshold of* ***at least 50%*** *of all voting Board members including employee representatives, unless more stringent independence criteria are recommended by the applicable corporate governance code. Certain jurisdictions (Austria, Germany, Denmark, Sweden, Norway, and Luxembourg) stipulate (whether by law or code) employee representation on Boards. In these cases, ECGS may accept an independence rate as low as 33%.*

Germany: Under the German "co-determination system", employees represent 33% or 50% of all voting members on the Board. ECGS thus retains a minimum independence requirement of 33%.

Austria: Under the Austrian "co-determination system", employees represent 33% of all voting members on the Board. ECGS thus retains a minimum independence requirement of 33%.

Netherlands: The Dutch Corporate governance code recommends that all supervisory Board members, with the exception of not more than one person, shall be independent as defined by the best practice provision of the code.

j. A Lead Independent or Senior Director is not considered independent even if the majority of the Board is independent.

k. A nominee is a representative of a major shareholder that, in case of approval, would be overrepresented on the Board.

Note: *Overrepresentation occurs when Board membership is disproportionate to share ownership giving a shareholder undue influence over Board decisions. In certain jurisdictions, employee representatives may be excluded when it comes to determining overrepresentation.*

ECGS may accept representatives of major shareholders (by voting rights), even when the Board boasts a minority of independent directors provided that such a right does not result in overrepresentation and/or control of the Board. Major shareholders are the largest shareholders of a Company as defined by voting rights. Although shareholders holding 3% or more of voting rights are generally considered to be major shareholders, analysts are free to define the percentage based on the circumstances in their respective markets.

France: ECGS will accept one representative of the three major shareholders on the Board even in case of a majority of non-independent members.

In Companies with controlling shareholders (generally 50%+ of voting rights, or lower depending on specific circumstances pertaining to the Company in question), representatives of other minority shareholders holding less than 10% of voting rights, although non-independent, will generally be supported for board diversity and will not be included in the calculation of the independence rate.

Spain: The Spanish Corporate Governance Code defines "**proprietary directors**" as individuals who have been appointed to the Board because they are shareholders, representatives of shareholders, or have personal or professional relationships with shareholders. Proprietary directors are not necessarily major shareholders (or representatives of major shareholders) per se, although in practice they usually are and represent 20% of share capital or more. The overrepresentation condition outlined herein will continue to apply.

Germany: ECGS will oppose all non-independent candidates irrespective of whether they are representatives of major shareholders as long as independence on the Board is not considered sufficient as per guideline 2.1(i).

l. A nominee has held an executive function in the Company during the last three years and the Board includes too many executive or former executive directors with respect to national standards of corporate governance.

Germany: ECGS will OPPOSE a candidate nominated for Chairman who has previously held a Management Board position within the Company and has failed to comply with the statutory two-year cooling off period. However, it should be noted that shareholders do not directly elect the Chairman of the Supervisory Board; he/she is appointed by the Board itself. In some cases, the identity of the Chairman is not disclosed in the agenda prior to the general meeting. When the identity is not known beforehand, ECGS will OPPOSE the election of all candidates having held an executive position within the last two years prior to the election.

m. A nominee has significant links to external auditors within the past five years.

n. A nominee has been a member of the Board for more than 20 years and the Company failed to provide adequate justification for re-election.

France: ECGS will OPPOSE the re-election of a non-independent non-executive director if the individual has not invested in the Company's shares the equivalent of one year of attendance fees over his/her last mandate.

ECGS will vote FOR the election of one employee shareholder representative even if the majority of the Board is not independent provided that the candidate nomination process is democratic and not influenced by management.

When evaluating nominees, ECGS will also take into consideration any public commitments or promises made by the nominees to uphold ECGS guidelines or other guidelines that improve corporate governance practices.

Switzerland: ECGS will OPPOSE the election of a nominee over 75 years of age or over 70 years upon first appointment should the Company fail to provide adequate justification for his/her nomination.

2.2. Election or re-election of a Chairman of the Board

VOTE FOR the proposal**. ECGS will OPPOSE the proposal if** one or more of the following conditions apply:

a. The functions of Chairman and Chief Executive Officer are combined, unless temporarily and adequately justified.

France: ECGS will only accept the re-election of a Chairman/CEO in case of significant improvement made in the field of corporate governance and the existence of serious counterbalances to the concentration of power, including but not limited to a majority of independent directors, the election of a Lead Independent Director, the regular meeting of the Board without the participation of executives.

If the Chairman/CEO is a founder (or a descendent/relative of the founder), ECGS will only accept his/her re-election if the Company boasts a majority of independent directors, respects the "one-share, one-vote" principle, he/she does not benefit from a significant related-party agreement and does not receive excessive compensation.

Spain: According to the Spanish Code, companies appoint a "**primer ejecutivo**" or first executive and a "**consejero delegado**" or a managing director. Although the former is typically the Chairman, the latter could be considered a CEO or COO. The distinction differs across companies. ECGS will approve the appointment of a Chairman with executive powers if power is deemed to be shared with a "**consejero delegado**", a Lead Independent Director exists (with vested powers such as representing shareholder concerns to the Board, and succession planning for the Chairman) and the Board has a majority of independent directors. Local regulation stipulates a qualified majority of two-thirds for the appointment of a Chairman.

b. The Chairman is a representative of a major shareholder and the Board fails to appoint a Lead Independent Director (unless there is a majority of independent directors).

Note: *If the major shareholder is overrepresented on the Board, then the nominee for Chairman will be treated as per guideline 2.1 (k).*

Germany: ECGS will oppose all non-independent candidates irrespective of whether they are representatives of major shareholders as long as independence on the Board is not considered sufficient as per guideline 2.1 (i).

c. A nominee is executive Chairman, unless temporarily and adequately justified.

Spain: Both the Spanish Companies Act and the Spanish Corporate Governance Code do not require that the Chairman be independent. A Chairman may hold executive powers provided that the Board appoints a Lead Independent Director. Powers vested with the Lead Independent Director should be disclosed in the Corporate Governance Report. The recommendation for the Chairman will follow the rules stipulated in the Spanish exception to guideline 2.2(a).

d. The Company breaches the applicable corporate governance code recommendation that the Chairman of the Board should not be a former executive without respecting the designated cooling-off period.

Germany: ECGS will OPPOSE if the nominee for Chairman has previously held a Management Board position within the Company and has failed to comply with the statutory two-year cooling off period.

Netherlands: The Dutch Corporate governance code states that the Chairman of the Board must never be an executive or a former executive (as per Chapter III.8 of the Dutch Corporate Governance Code).

e. There are serious concerns about corporate governance and the Company's dialogue /engagement with its shareholders. This includes the unjustified refusal to adopt (or table) a proposal that commands the support (or opposition) of a majority of shareholders, or a failure to adopt a proposal that promotes sound financial performance.

Note: *If the Company has not established a nomination committee, ECGS will oppose the re-election of the Chairman of the Board if one of the conditions mentioned in 2.4 (d) applies.*

f. The Chairman of the Board is granted high remuneration while also chairing the remuneration committee (conflict of interest).

2.3. Election or re-election of Executive Directors

VOTE FOR the proposal**. ECGS will OPPOSE the proposal if** one or more of the following conditions apply:

a. The executive director chairs or will chair the Board and there is no separate shareholder approval of the Chairman of the Board.

b. A nominee is an executive director (other than the Company's CEO) and the number of executives or former executives on the Board exceeds local market practice. ECGS will also take into account the general level of independence on the Board while voting on executive directors.

Switzerland: ECGS will OPPOSE the election of all members of the executive management to the Board of directors.

c. The executive director serves or will serve on the audit committee or the remuneration committee.

United Kingdom: ECGS will OPPOSE the election of all non-independent directors to the audit and remuneration committees regardless of whether they are executives or not.

d. The executive director chairs or will chair the nomination committee.

United Kingdom: ECGS will OPPOSE the election of the CEO if he/she is or will be a member of the nomination committee.

France: ECGS will OPPOSE the re-election of executive directors should they join the nomination committee.

e. The executive director serves or will serve on the nomination committee and the committee does not comprise a majority of independents or it already includes an executive director.

f. A nominee (other than the Company's CEO) is a representative of a significant shareholder who, if elected, would render the shareholder overrepresented on the Board provided that ECGS cannot oppose the non-executive representatives of the same shareholder.

France: ECGS will OPPOSE the re-election of the CEO and/or other executive directors if they have not invested in Company shares a sum equivalent to their annual base salary during their first term in office.

In determining whether to support the re-election of a CEO, ECGS will analyse *inter alia* the Company's financial performance (namely, shareholder value creation). CEOs will also be evaluated based on their environmental record during their tenure. ECGS will consider the Company's Scope 1 and 2 greenhouse gas (GHG) emissions (directly and indirectly linked to energy consumption respectively), as measured by tons of CO_2 equivalents per million currency units of revenues (environmental performance). The improvement in disclosures regarding Scope 3 emissions will also be taken into consideration. Moreover, ECGS will evaluate whether the Company's GHG reduction targets are in line with the recommendations of the Intergovernmental Panel on Climate Change (IPCC), namely that emissions should be reduced so as to limit average global warming to well below 2 degrees Celsius (approval of said targets by the Science-Based Targets initiative).

2.4. Re-election of special Board committee members

VOTE FOR the proposal**. ECGS will OPPOSE the proposal if** one or more of the following conditions apply:

a. A nominee is the current Chairman of the audit committee in cases where the committee has made important decisions that are contrary to best practice principles of corporate governance or are not in line with the interests of shareholders or other stakeholders.

b. A nominee is a former executive of the Company during the last three years who will serve as a member of the audit committee.

c. A nominee is the current Chairman of the remuneration committee where there are significant concerns about remuneration disclosure or remuneration policy and the absence of regular Say on Pay proposals.

France: ECGS will oppose the re-election of the Chairman of the remuneration committee if the Company has failed to heed shareholder concerns following a highly contested vote (20% or more opposition rate) on remuneration in the prior year period.

d. A nominee is the current Chairman of the nomination committee and one or more of the following conditions apply:

- The independence of the Board is not sufficient and not sufficiently improving.
- The diversity of the Board is not sufficient and not sufficiently improving.
- The director’s term of office exceeds four years (for Germany and Austria, a five year term would be applicable).
- There are serious concerns regarding the lack of transparency of the nomination process.
- The Board renewal is not sufficient.

Note: *ECGS will apply the stricter of the local standard/requirement and a minimum of 30% of the Board, when analysing gender diversity.*

Sweden: Particular Board composition: the largest shareholders (or their representatives) make up the majority of a nomination committee.

Germany: Pursuant to item 2.1(l), ECGS will OPPOSE the re-election of the Chairman of the nomination committee if the identity of the candidate for Chairman of the Supervisory Board is not disclosed together with the invitation to the general meeting.

United Kingdom: If the Chairman of the nomination committee is newly appointed or if the position is vacant AND at least one of the conditions in 2.4.D applies, ECGS will OPPOSE the re-election of the most senior member of the nomination committee.

Switzerland: ECGS will vote FOR the re-election of the Chairman of the nomination committee even if the Board does not respect the gender diversity minimum of 30% set by ECGS.

ECGS will OPPOSE the election of the Chairman of the **nomination committee** if:

a. The Board renewal is insufficient.
b. The Board composition is unsatisfactory.

ECGS will OPPOSE the election or re-election of the members of the **remuneration committee,** if one or more of the following conditions apply:

a. ECGS could not support the election of the nominee to the Board.
b. The number of mandates held by a nominee is excessive in light of the types of mandates and the maximum limit required by national standards on corporate governance.
c. The nominee is not independent and the committee members are not at least 50% independent.
d. The nominee does not meet ECGS independence criteria and the committee includes all Board members.
e. The remuneration of the nominee is excessive or not in line with generally accepted best practice standards.
f. The nominee holds an executive function in the Company.
g. The nominee was a member of the remuneration committee during the past financial year and one of the following points is true:
    - The remuneration system of the Company is deemed very un-satisfactory.
    - The transparency of the remuneration report is deemed very insufficient.
    - The amounts paid out are not in line with the Company's performance or with the remuneration components approved in the annual general meeting.
    - The exercise conditions for a variable remuneration plan were modified in the course of the financial year.
h. The nominee was a member of the remuneration committee in the past when this committee made decisions fundamentally in breach of generally accepted best practice standards.

2.5. Election or re-election of non-voting Board members

VOTE FOR the proposal**. ECGS will OPPOSE the proposal if** the election of non-voting Board members does not respect local best practices or ECGS principles.

2.6. Approval of the Board size

VOTE FOR the proposal**. ECGS will OPPOSE the proposal if** the proposed number of Board members is not adapted to the size of the Company or not in line with national standards of corporate governance.

2.7. Change of length of Directors' term in office

VOTE FOR the proposal**. ECGS will OPPOSE the proposal if** shareholders lengthen directors' term in office.

2.8. Grouped elections of Board members

VOTE FOR the proposal**. ECGS will OPPOSE the proposal if** one or more of the following conditions apply:

a. There are no legal requirements in the jurisdiction in question for a slate election of Board members.

b. In case of a mandatory slate election in which one of the following conditions is observed:

   i. Elections where only one slate with insufficient independence is running. In this case, ECGS will oppose the election of the entire slate.

   ii. Elections where multiple slates are running. Rather than oppose the election of all slates, ECGS will strive to vote for the slate that would improve independence if applicable.

c. Elections where multiple slates are running none of which improve an existing unsatisfactory Board composition. *(note: here ECGS will oppose the election of all slates*)

d. The re-election of one or several directors does not respect ECGS guidelines and the approval of the entire slate is contrary to the interests of the Company and its shareholders. (*note: here ECGS will oppose the election of the entire slate*)

Note: *Slate elections apply in Italy, Finland and Sweden.*

Finland and **Sweden**: Despite their widespread use, slate elections are not a legal requirement in these jurisdictions. Nevertheless, ECGS may choose to vote FOR slates in these jurisdictions while urging local authorities to adopt individual Board elections.

Italy: ECGS may OPPOSE the election or re-election of the entire slate if the identity of the Chairman and the holders of other key positions are not disclosed even when the slate is deemed independent.

2.9. Director dismissal

VOTE FOR a Board or shareholder proposal if one of the following conditions applies:

a. A director has been convicted of criminal charges that would compromise his/her integrity and professional reliability.

Note: *Directors under investigation for misconduct or indicted for criminal charges will be assessed on a case-by-case basis*.

b. The justification given by the Company concerning the director dismissal is considered appropriate in light of ECGS corporate governance principles.

3. EXTERNAL AUDITORS

3.1. Election or re-election of auditors

VOTE FOR the proposal. **ECGS will OPPOSE the proposal if** one or more of the following conditions apply:

a. The independence of the external auditor is compromised by recent significant links (within the past five years) to directors, major shareholders, senior managers provided that ECGS cannot oppose the re-election of said director at the meeting instead.

Note: *An external auditor with significant links to a Company is defined as someone who was directly involved with said Company or was a senior partner of the regional office or industry division in which the Company operates and is currently serving as director (If said director is up for re-election, ECGS would instead oppose his/her election).*

b. The audit firm (group) has been in office for more than ten years or twenty years if an audit tender has taken place after this initial engagement period.

Note: *The EU Regulation on specific requirements regarding statutory audit of public-interest entities (537/2014/EU) calls for the implementation of a ten-year audit firm rotation for all Public Interest Entities (PIEs). Following this first mandate, member states have the option to extend the mandate further up to a maximum of: ten years if a tender is undertaken or fourteen years if a joint audit process is adopted. The Regulation also includes general guidelines for transitional periods for incumbent auditors (ex: an auditor appointed in 1993 does not have to be replaced before 17 June 2020) and several member states have their own transitional periods. Given that the aforementioned transitional periods can be quite long and clearly favour incumbent auditors, ECGS will implement the conditions of the EU Regulation itself rather than adhere to the transitional periods.*

Switzerland: The EU Regulation on specific requirements regarding statutory audit of public-interest entities (537/2014/EU) does not apply in Switzerland. ECGS will oppose the re-election of the audit firm (group) if it has been in office for more than twenty years.

France: ECGS will OPPOSE the re-election of the audit firm (group) if it has been in office for more than three consecutive six-year terms (eighteen years in total).

Netherlands: Since 1 January 2016, companies are required to rotate audit firms once every eight years.

Italy: Pursuant to local legislation, it is not possible to re-elect the audit firm (group) if it has been in office for more than nine years without a three-year cooling off period.

c. There is insufficient justification for a change of auditor.

Note: *The change of auditor after a tender process will be considered as sufficient explanation. This point aims to protect auditors who issue modified opinions and disagree with management.*

d. The election of the auditor presents a serious risk to audit accuracy and the audit process, including but not limited to:

- Valid accusations recently levelled against the lead auditor in connection with his/her fulfilment of a similar mandate.

- Revealed fraud or other proven weaknesses in the Company's internal controls that have not been identified by the auditor**.**

e. Non-audit fees are equal to or are greater than the audit fees in the year under review and/or greater than 50% over the preceding three-year aggregate period.

Note: *Analysts have to take into account the type of non-audit or audit related fees charged and can amend the vote accordingly, for example exceptional items related to legally required certification or fees related to pension schemes. Additionally analysts may opt to re-classify certain audit-related fees as audit fees should they deem it necessary to do so. In cases were absolute fees are relatively low and there are no independence concerns, analysts may approve the appointment of an auditor even when non-audit fees exceed the limits stated herein.*

Note: *The EU Regulation on specific requirements regarding statutory audit of public-interest entities (537/2014/EU) calls for a cap on permissible non-audit services equal to 70% of the average audit fees of the last three consecutive financial years. Although this limit exceeds the 50% cap disclosed herein, analysts are strongly encouraged to adopt the stricter ECGS standard.*

France: ECGS will OPPOSE the re-election of the auditor if non-audit fees are equal to or greater than 50% of audit fees in the year under review. ECGS will oppose the re-election of the auditor if non-audit fees are 10% or more of total fees when their precise nature is not disclosed.

f. The information provided with regard to auditors' fees paid by the group is insufficient to make an informed assessment of the auditor's independence.

g. The total remuneration of the audit firm exceeds 10% of its revenues in jurisdictions where such information is available.

3.2. Approval of the auditors' remuneration

VOTE FOR the proposal. **ECGS will OPPOSE the proposal if** there is a separate vote on the auditors' remuneration and ECGS has remuneration related concerns as mentioned above.

4. REMUNERATION

Remuneration is generally presented to shareholders for a vote as either (i) an ex-post vote on the **Remuneration Report** or (ii) an ex-ante vote on the **Remuneration Policy** (or Remuneration System) or both. Whether these resolutions are binding or consultative, annual or periodic (only when a change is requested), varies by jurisdiction.

Shareholders should also note that individual remuneration components can be submitted separately to a vote (ex: new LTIP plan) and that in some jurisdictions, an annual vote on remuneration is not compulsory. The guidelines under this section refer to all remuneration components under both the Remuneration Report and the Remuneration Policy. Analysts are however free to choose which guidelines are more pertinent in evaluating the former as opposed to the latter.

Note: *Major concerns about remuneration should be included in the proxy analysis section of a typical ECGS report (Section 2) provided that the jurisdiction in question requires shareholder approval of director compensation. In jurisdictions where only changes to remuneration are up for a vote, analysis of the amounts granted in the year in question is to be addressed in Section 4- "Remuneration Report". In particular, analysts should detail the changes in annual variable remuneration as they relate to the evolution of key performance indicators (for ex. sales, EBITDA, EPS, share price).*

In cases where there is no vote on remuneration and serious concerns about the remuneration system exist (such as the Company failing to heed shareholder concerns following a highly contests vote on remuneration in the previous year), ECGS will oppose the adoption of the following items in the indicated order:

- *The re-election of the Chairman of the remuneration committee;*
- *The re-election of other members of the remuneration committee when the Chairman is not up for re-election;*
- *The discharge of the Board if no member of the remuneration committee is up for re-election;*

Analysts are generally required to address disclosure, structure, alignment, quantum, and other aspects unique to their respective jurisdictions in their analysis.

Germany: Given that compensation resolutions in Germany typically address changes to a current remuneration system, it serves as a vote on prospective changes to remuneration policy rather than a decision on remuneration awarded in a given year. Accordingly, concerns regarding current remuneration may be expressed in the re-election of members of the remuneration committee or the discharge the Supervisory Board.

Spain: Since 2015, the remuneration policy is subject to a binding shareholder vote at least once every three years. During this three-year period, any changes to the policy must be previously approved by the general meeting. Shareholders are also called to an annual advisory vote on the Remuneration Report, including the remuneration policy for the members of the Board of Directors and the amounts paid in the last year. If the annual Remuneration Report is rejected, the remuneration policy shall be submitted to a binding vote at the next general meeting. In analysing the remuneration policy (binding vote), ECGS will primarily take into account any changes to the policy, while the analysis on the Remuneration Report (non-binding vote) will be mainly focused on the remuneration structure and the level of disclosure of all remuneration components.

4.1. Executive remuneration

VOTE FOR the proposal**. ECGS will OPPOSE the proposal if** one or more of the following conditions apply:

- **Disclosure**

a. The Company fails to disclose its remuneration policy or remuneration report in a timely manner.

b. Information provided to shareholders is insufficient for assessing the principles, structure, components, total amounts dispensed as well as variable remuneration plan features, and the alignment between pay and performance.

- **Structure & Alignment**

a. The overall policy and remuneration structure is not in line with generally accepted best practices (see ECGS Principles of Corporate Governance).

b. Less than 50% of the variable remuneration is linked to long term performance.

c. Executive variable remuneration is not in line with Company performance.

d. Variable remuneration does not include a robust claw back/malus clause in jurisdictions where such features are feasible or legally permitted.

e. Total remuneration significantly exceeds the peer group median.

f. Remuneration (total and/or its components) increases excessively or without relevant justification.

g. Proposed amendments to the remuneration policy do not respect ECGS principles and/or local best practices.

- **Base salary**

a. The base salary is not in line with market practice and the Company does not provide a sufficient explanation to justify this deviation.

b. Proposed base salary increases are considered excessive and/or are not justified.

- **Short-term incentives**

a. The maximum annual bonus exceeds 150% of the base salary.

b. The outcome of the actual bonus exceeds the pre-set maximum (i.e. executives are entitled to exceptional bonuses and/or other discretionary payments).

c. The remuneration committee or the Board have too much discretion with regard to awards (ex: they could change performance conditions retroactively or after the start of a performance period)

d. The structure and conditions of short-term incentives do not respect generally accepted best practices.

e. No clear link between pay and performance exists given historic payout levels and current amounts awarded.

- **Long term incentives**

a. The plan does not operate one or more clearly disclosed and challenging performance conditions.

b. The performance measurement period for vesting is not long enough: as a rule of thumb, any performance measurement period inferior to three years will be considered too short.

France: An ideal remuneration structure includes a base salary and an allocation of free shares that are subject to a performance measurement period of at least five years followed by a holding period of up to five additional years.

c. The downside of the plan is not zero.

d. Certain criteria reward below median performance.

e. The maximum variable remuneration (in case of outstanding performance) exceeds two times the target grant.

f. Vesting for share-based compensation schemes is non-linear.

g. Dilution exceeds 10% of the issued share capital for all outstanding share schemes over 10 years and/or 5% for the proposed scheme.

h. Option exercise prices are below the market price at grant date.

i. The vesting of a share-based incentive is not subject to a service condition.

France: ECGS will OPPOSE the authorisation to award prospective share-based compensation schemes (to 'mandataire sociaux') if one of the following conditions apply:

a. The global authorisation exceeds 10% of share capital over a period of 10 years.
b. The global authorisation for option schemes exceeds 2% of share capital.
c. The global authorisation for performances share schemes exceeds 0.5% of share capital.
d. An executive director of a CAC 40 Company receives more than 0.10% of share capital under option schemes or 0.03% of share capital under performance share schemes.

Higher limits than stipulated above may be accepted if share-based plans include particularly challenging long term performance conditions.

- **Total variable remuneration**

a. The maximum variable remuneration (both short-term and long term and including awards for exceptional performance) exceeds 300% of the base salary.

Note: *ECGS may accept a total variable remuneration in excess of 300% of base salary in certain jurisdictions where such amounts are permitted and/or are commonplace provided that one or more of the following conditions exist:*

i. Performance metrics correspond to key performance indicators (KPIs) in the strategic report.
ii. Relative performance metrics are used (ex: relative TSR, relative sales growth) with an emphasis on the peer group provided that below median performance is not rewarded.
iii. A clawback/malus mechanism is used provided that such a tool is feasible and/or legally possible in the jurisdiction in question. In these cases, a maximum bonus in excess of 150% of base salary may be tolerated.
iv. Other exceptional factors that analysts deem to be consequential.

In certain jurisdictions, LTIPs may be determined on a non-rolling basis whereby shares are awarded only at the beginning of the performance period and no maximum annual LTIP allocation is disclosed. In these cases, conventional analysis may lead to the approval of plans with performance periods biased toward the short-term and/or underestimate quantum. Analysts are therefore encouraged to allocate non-rolling shares proportionally throughout a performance period (ex: 40% annually for a 200% LTIP awarded at the beginning of a five-year performance period).

Note: *In certain jurisdictions, companies may request a global envelope well in excess of the 300% limit to compensate their executives and directors only for the actual remuneration to prove to be much lower. In these cases, analysts may consider other determining factors in forming their opinions.*

Note: *ECGS will generally not penalize low quantum remuneration packages should their structure fail to comply with guidelines. Nevertheless, in jurisdictions where variable remuneration is typically below the 300% limit, analysts are free to evaluate remuneration based on other factors including but not limited to structure.*

b. Variable remuneration includes matching shares awarded at a ratio greater than or equal to 1-for-1 and do not include performance conditions.

Note: *ECGS may approve a matching share plan provided that the award ratio is deemed low and that the time frame is sufficiently long (ex: 1/5th of a share awarded for every share invested over a period of five years). Analysts will also consider whether the minimum initial investment in shares required to trigger a matching share plan is excessive in the first place.*

c. Variable compensation is awarded through the creation of a new class of shares without an adequate justification.

Note: *ECGS will consider whether justifications provided by the Company truly warrant the creation of a new class of shares. These include, but are not limited to: the avoidance of dividend payments to unvested shares, advantages to social security contributions, and general tax benefits.*

d. Variable remuneration plans include performance conditions that are discretionary in nature, such as dividends, and the Company does not disclose a coherent dividend policy that is aligned with underlying performance, and/or the dividend is not deemed to be in the best interest of the Company (ex: ECGS opposed the dividend).

Note: *In some jurisdictions, a maximum LTIP is set as a percentage of the base salary and the number of shares awarded is not disclosed. The number of shares is only known ex-post, at the prevailing price on the vesting date. This number can be higher than what would have* *otherwise been awarded using prices on the grant date in order to account for dividend-equivalent shares (usually calculated as dividends distributed during the vesting period divided by a share price determined on or prior to the vesting date). These dividend-equivalent shares will be treated similarly to dividends used as a performance condition. ECGS may oppose such plans as they could incentivize companies to pay higher dividends that are not aligned with underlying performance.*

e. One or more performance criteria are used in both short-term and long term incentives and are deemed to significantly impact the award.

Note: *In line with recommendations of the European Central Bank (ECB), banks are highly encouraged to include, in their variable remuneration plans, a vesting schedule in the form of a linear path towards achieving fully-loaded capital requirements. Analysts are encouraged to evaluate remuneration plans based on said criterion.*

f. The Remuneration Report or Remuneration Policy were highly contested in the prior period and the Company has failed to introduce changes that address shareholder concerns.

Note: *Analysts are free to determine what constitutes the threshold for a highly contested resolution as this may vary by Company. Generally, any resolution with an opposition rate of 15-20% or more is considered to be highly contested.*

- **Post-employment and other benefits**

a. Termination benefits exceed one year of annual remuneration (base salary and annual bonus) and are higher than any other stricter recommendation of the applicable corporate governance code and market best practice.

The following stricter local recommendation will be applied:

Netherlands	The remuneration in the event of dismissal may not exceed **one year's salary** (the **'fixed'** remuneration component).
Finland **Luxembourg** **Sweden**	The termination payment is limited up to a **two-year fixed salary**.
France	The severance payment should not exceed **12 months of cash remuneration** (base salary + annual bonus) including a possible non-compete clause covering at least a two-year period post departure. Any executive with a total remuneration exceeding 240 times the minimum wage (€ 4.8 million) will not be authorised any additional severance payment. Performance conditions should be challenging enough to avoid payments in case of poor performance.

Note: *If the termination benefit is expressed in terms of base salary, ECGS will apply a limit of 24 months. ECGS will generally approve executive remuneration policies where the only concern is the termination payment, unless of course such concern is significant.*

Belgium, Denmark, Norway, Portugal and Spain: ECGS will accept a termination benefit up to two years of remuneration (base salary and bonus) or the stricter recommendation of the applicable corporate governance code and the market best practice if the total amount of remuneration does not significantly exceed the peer group median.

Italy: ECGS will accept a termination benefit of up to two years of annual compensation (base salary + annual bonus) including benefits under local laws. Should the latter payments be equal to or exceed two years of annual compensation, ECGS will oppose all additional termination benefits.

Germany: ECGS will accept a termination benefit of up to two years of annual compensation (base salary, annual bonus, long-term incentive and fringe benefits) in line with the local corporate governance code and market practice (severance pay cap). Moreover, a severance limit of 150% of the severance pay cap will be accepted given a change in control.

- **Pension provisions**

a. The pension arrangements are not properly disclosed.

b. The pension arrangements are not in line with market best practices.

c. In defined-benefit plans, the acquisition of pension rights is not granted proportionally over time (subject to seniority).

d. The pension contribution in a given year is deemed excessive.

United Kingdom: ECGS will OPPOSE pension contributions if they exceed 30% of the base salary in a given year.

France: ECGS will OPPOSE the pension provisions as either part of the Say-on-Pay resolution or the regulated agreement with related parties resolution if one or more of the following conditions apply:

- **a.** A supplementary defined benefit plan (SERP or “Top Hat”) provides an annuity in excess of € 300,000.
- **b.** A total annual pension (French social security benefits and Top Hat) in excess of € 450,000.
- **c.** The beneficiary’s total remuneration exceeds 240 times the French minimum wage (€4.8 million).

4.2. Employee incentive schemes

- **Employee Stock Ownership Plan (ESOP)**

VOTE FOR the proposal. **ECGS will OPPOSE the proposal if** one or more of the following conditions apply:

- **a.** In the absence of special circumstances, employee incentive schemes allow the transfer of new or existing shares (in aggregate with all other outstanding share-based compensation schemes) exceeding 5% of the issued share capital or 10% of issued share capital over a 10-year rolling period.
- **b.** The ESOP allows for a discount when employees own more than 10% of capital or the plan does not require a minimum holding period of three years.
- **c.** The discount is higher than 20% of the market price at grant date.

France: Under ESOPs, employees are eligible to purchase new shares with a maximum discount of 20% (5-year holding period) or 30% (subject to a 10-year holding period). Considering the long holding period, the level of discount is deemed justified.

- **d.** Management has interfered in the exercise of voting rights by employees or their ESOP funds and employee share ownership exceeds 5% of the issued share capital (new authorisation included).

- **Restricted (performance) shares**

VOTE FOR the proposal. **ECGS will OPPOSE the proposal if** one or more of the following conditions apply:

- **a.** The maximum authorised percentage exceeds 5% over a 10-year rolling period.
- **b.** The total dilution including all employee incentive schemes exceeds 10% of the issued capital over a 10-year rolling period.
- **c.** The plan does not require a minimum holding period of three years.

France: ECGS will OPPOSE the proposal if the authorisation exceeds 0.50% of share capital (exception when the Company complies with the 10% dilution rule over 10 years). A higher authorisation may be agreed when challenging performance conditions apply.

United Kingdom: Performance shares are typically referred to as ‘nil-cost options’ and priced using option pricing models with an exercise price equivalent to zero.

4.3. Remuneration of Non-Executive Directors

VOTE FOR the proposal. **ECGS will OPPOSE the proposal if** one or more of the following conditions apply:

a. The increase since the previous year is excessive and/or not justified.

Note: *Analysts are encouraged to take into account the evolution of non-executive compensation over several years where applicable. Annual changes, such as the replacement of variable compensation with a fixed fee, constitute an improvement according to ECGS guidelines yet may still remain excessive relative to historical averages.*

b. The proposed maximum amount of Board remuneration significantly exceeds the median for companies of a similar market capitalisation or belonging to the same sector without adequate justification.

c. Non-executive directors are granted any performance related remuneration, such as bonuses or share-based schemes, remuneration linked to the payment of a dividend, or retirement benefits.

d. The non-executive Chairman's fees significantly exceed the average fees of the other non-executive directors without adequate justification.

e. The individual amounts paid to Board members are not disclosed.

France*:* ECGS will OPPOSE the remuneration of non-executive directors if one or more of the following conditions apply:

- Director fees are not partly linked to real attendance rates.
- Average fees are high enough so as to risk rendering a director dependent on income from the Company in question (from €100,000 per year).

ECGS may approve the payment of higher fees should directors be required to invest at least 50% of the increase in Company shares and hold them until the end of their mandates.

5. CAPITAL STRUCTURE

5.1. Share capital structure

- **"One-share, one-vote" principle**

VOTE FOR the proposal. **ECGS will OPPOSE the proposal if** the proposal violates the "one-share, one-vote" principle by introducing a new class of multiple voting shares or granting registered shareholders more voting rights.

- **Share split**

VOTE FOR the proposal.

- **Debt issuances**

VOTE FOR the proposal. **ECGS will OPPOSE the proposal if** one or more of the following conditions apply:

a. The authorisation would increase indebtedness (as measured by net debt-to-market capitalisation, net debt to-EBITDA, or other applicable measures) significantly beyond industry or sector norms without adequate justification.

b. The authorisation could weaken the Company's financial position and potentially undermine its solvency.

c. The authorisation is intended to finance an acquisition that has not been previously approved by shareholders.

- **General authority to issue new shares and/or other capital related securities**

VOTE FOR the proposal. **ECGS will OPPOSE the proposal if** one or more of the following conditions apply:

a. The authorisation is not subject to strict time and dilution limits.

b. The authorisation, <u>with pre-emptive rights</u>, exceeds 50% of issued share capital (including all valid outstanding authorisations). This maximum limit is reduced if a lower maximum threshold is established by local corporate governance standards.

United Kingdom: In accordance with the Investor Association (IA) guidelines, authorisations requesting share issuances are recommended to be capped at two-thirds (33%+33%) of issued share capital provided that the additional 33% is only used to allot shares pursuant to a rights issue. Section 561(1) of the UK Companies Act 2006 specifies that a Company must not allot equity securities to any person on any terms unless it has made an offer to each person who holds ordinary shares in the Company.

c. The authorisation, <u>without pre-emptive rights</u>, for unspecified beneficiaries and/or for unspecified projects exceeds 10% of share capital (including all valid outstanding authorisations).

d. The dilution due to capital increases without pre-emptive rights in the past three years has been excessive.

e. Previous authorisations were used to violate shareholder rights, for example the adoption of a “cash-box” placement scheme.

Note: *A “cash-box” placement scheme refers to the issue of securities in a manner that would circumvent the pre-emption requirements detailed in Section 561 of the UK Companies Act 2006. A Company typically creates a special purpose vehicle (SPV) in which it retains a majority stake. A banking intermediary, which will hold a minority stake in the SPV, will then subscribe to redeemable preferred shares issued by said SPV and undertake to pay the SPV the subscription price for said shares. The Company will then issue new ordinary shares that it places with investors procured by the banking intermediary, the proceeds of which will be used to honour the subscription commitment. The redeemable preference shares, along with the banking intermediary’s minority stake in the SPV, are then transferred to the Company as payment for its aforementioned issue of ordinary shares. The redeemable preferred shares are then redeemed by the SPV, effectively transferring the cash raised from the share issuance to the Company, after which the SPV is liquidated.*

f. The authorisation may be employed as an anti-takeover defence, which may lead to entrenched management and therefore harm shareholder interests.

g. The authorisation is requested for a period longer than two years, or five years in Germany, Spain and Italy.

__Note__*: During a public offer, authorisations to employ anti-takeover defences will be assessed on a case-by-case basis in light of ECGS Corporate Governance Principles. However, consideration will be given to the acquirer's objectives and track record and to the long term interest of the Company and its stakeholders.*

Italy: ECGS will OPPOSE general authorisations without pre-emptive rights exceeding 5% of share capital given that they are requested for five years unless the rationale for such action is clearly detailed and consistent with the Company's long term strategy.

France: ECGS will vote FOR general authorisations up to 33% of issued share capital without tradable pre-emptive rights ("***droit préférentiel de souscription***") given that they come with a priority subscription period ("***délai de priorité***") for shareholders. Moreover, ECGS will OPPOSE any general authorisation of capital increases in kind without pre-emptive rights.

United Kingdom: In line with recommendations of the Pre-Emption Group, general capital authorisations without pre-emptive rights will be limited to:

- A maximum of 5% of issued ordinary share capital in any one year, whether or not in connection with an acquisition or specified capital investment; and
- A maximum of 5% of issued ordinary share capital provided that, in the circular for the Annual General Meeting at which such additional authority is to be sought, the Company confirms that it intends to use it only in connection with an acquisition or specified capital investment which is announced contemporaneously with the issue, or which has taken place in the preceding six-month period and is disclosed in the announcement of the issue.
- A maximum authorisation of 10% of issued ordinary share capital in any one year and the Company confirms that 5% of issued ordinary share capital will be used only in connection with an acquisition or specified capital investment.
- No more than 7.5% of issued ordinary share capital in the form of cash equity securities in any rolling three-year period.
- The shorter of 15 months or until the next Annual General Meeting

When the authorisation to issue an additional 5% of issued ordinary share capital without pre-emptive rights is used, companies should disclose:

- Actual level of discount achieved;
- Net proceeds raised;
- How the proceeds were used;
- The percentage increase in issued share capital due to non-pre-emptive issuance for cash over the three-year period preceding the issue;

In the event of a failure to disclose the aforementioned information, ECGS will OPPOSE the resolution to issue an additional 5% of issued ordinary share capital without pre-emptive rights.

Switzerland: ECGS will OPPOSE any capital increase exceeding a 15% maximum for a given authorisation and a 20% maximum for total authorisations without pre-emptive rights.

- **General authority to incorporate reserves, profits or issue premiums**

VOTE FOR the proposal. **ECGS will OPPOSE the proposal if** the proposed authorisation undermines the Company's ability to distribute dividends.

- **Specific share issuances with or without pre-emptive rights**

Specific share issuances, with or without pre-emptive rights, will be assessed on a **case-by-case** basis in light of ECGS Corporate Governance Principles.

- **Capital reduction by cancellation of shares**

VOTE FOR the proposal. **ECGS will OPPOSE the proposal if** one or more of the following conditions apply:

a. The reduction in capital is incompatible with the financial situation of the Company, its significant capital needs or the long term interests of shareholders.

b. The Company is not able to pay a dividend.

c. A selective reduction of capital raises the risk of 'creeping control'.

France: ECGS will OPPOSE any capital reduction by cancellation of shares if the free float is under 40% of market capitalisation, which could adversely impact liquidity..

- **Capital reduction by reducing the par value of the Company's shares**

VOTE FOR the proposal. **ECGS will OPPOSE the proposal if** the shareholder right to place an item on the agenda of the annual general meeting is significantly undermined.

- **Special authority to issue contingent convertible capital securities "CoCos"**

Note: *Contingent convertible capital securities, or "CoCos", generally refer to all subordinated forms of debt instruments issued by credit institutions that stipulate a contractually regulated loss absorption mechanism. Pursuant to Articles 52, 53, and 54 of the EU Regulation No. 575/13, these instruments qualify as Additional Tier 1 (AT1) capital, which can contribute up to a maximum of 1.5% of additional capital to mandatory requirements. Upon the occurrence of a 'trigger event', the principal amount on said instruments may be written down (on a permanent or temporary basis, either completely or partially) or converted to Common Equity Tier 1 (CET1) instruments (such as ordinary shares).*

Trigger events typically occur when the CET1 ratio falls below 5.125%, or a higher level as determined by the credit institution in question. Institutions may also opt for provisions detailing additional trigger events. In cases where provisions require CoCos to be converted to CET1 instruments, institutions must either specify the rate of said conversion and a limit on the amount to be converted, or a range within which instruments will be converted. Distributions on CoCos may be cancelled at any time for an unlimited period and on a non-cumulative basis, and such cancellations do not constitute a default event. CoCos may be reduced, repurchased, called or redeemed within five years after the issue date provided that institutions demonstrate inter alia to the competent authorities: (i) that they will be replaced with capital of equal or higher quality, (ii) that following said action, capital levels would not fall below minimum requirements as stipulated in Article 92, (iii) that a change in regulatory classification of said instruments may exclude them from the 'own funds' definition of capital, or render them of lower quality, and (iv) that a change in the tax treatment of said instruments is material and was not reasonably foreseeable at the time of issue.

CoCos can additionally be issued as part of Tier 2 (T2) capital in which case they would rank ahead of their AT1 counterparts in case of liquidation. These instruments typically carry a specified maturity date and their distributions cannot be suspended.

VOTE FOR the proposal. **ECGS will OPPOSE the proposal if** one or more of the following conditions apply:

a. The special authorisation exceeds 10% of issued share capital and the Company.

b. In cases where the special authorisation requests that securities be converted to CET1 instruments at a discount to the prevailing share price at issue date that is deemed to be excessive relative to recent issuances at other Companies with similar risk profiles.

Note: *The conversion of contingent convertible capital securities will take place, if at all, during a significant credit event at the Company in question, implying that its share price would have deteriorated significantly since the issue date.*

c. The coupon rate, if it can be reasonably estimated, applicable to the contingent convertible capital securities, is deemed excessive relative to recent issuances at other Companies.

Note: *A relatively high coupon rate may run a higher risk of being cancelled by the Company should it be faced with liquidity needs in the future. Moreover, the mere act of cancelling the coupon could spook markets creating further volatility and uncertainty thereby undermining the confidence that these instruments were intended to convey in the first place.*

d. The Company has requested approval to continue paying a dividend (whether it is an increase or decrease) and/or to repurchase shares at the same AGM.

Note: *In cases, where the Company is requesting approval of a scrip dividend at the same AGM, and in which shareholders can opt to receive said dividend in cash, analysts will assess the historical levels of cash dividends paid, should such information be available, in order to determine whether the amounts distributed are excessive.*

e. In cases where contingent convertible capital qualifies as T2 capital, the time to maturity is in excess of 5 years and there is no specified call date at or before the fifth anniversary post-issue date. The size of the authorisation and the level of coupon payment will be taken into consideration vis-à-vis the aforementioned items.

Note: *Analysts should always weigh the benefits attributable to contingent convertible capital securities versus those of issuing ordinary shares with pre-emptive rights. Whereas, contingent capital can serve as a buffer between creditors and shareholders and can contribute to the stability of a credit institution, it may significantly dilute existing shareholders, and, in cases where a coupon is eventually suspended, produce an undesired effect in the form of increased risk and uncertainty. Nevertheless, the conditions detailed herein are to be evaluated against the possibility that a credit institution may fail to remain viable in the absence of a contingent convertible issue, especially if demand for ordinary shares is subdued. ECGS remains committed to the view that, barring any extenuating circumstances, the best way to ensure the long term viability of a credit institution is to issue ordinary shares with pre-emptive rights (or without pre-emptive rights so long as they respect the dilution limits set herein).*

5.2. Share repurchases

VOTE FOR the proposal. **ECGS will OPPOSE the proposal if** one or more of the following conditions apply:

a. The principle of equal treatment of shareholders is not respected.

b. The repurchase authorisation exceeds 10% of issued share capital.

c. The maximum share purchase price is above 10% of market price on purchase date.

d. Purchase of shares is allowed by block trade or using derivative instruments without appropriate disclosure or with an excessive maximum purchase price.

e. The repurchase authorisation is deemed to increase indebtedness (as measured by net debt-to-market capitalisation, net debt-to-EBITDA, or other applicable measures) to excessive levels as compared to historical levels or industry peers.

f. The repurchase authorisation replaces the cash dividend or critically undermines the Company's capacity to pay a dividend.

g. The Company pays a dividend and has not provided shareholders with opportunity to vote on said dividend at the general meeting.

h. The Company employs "per share" performance conditions (ex: earnings per share) as part of short term and/or long term incentives up to a significant proportion (50% or more) of the award in question provided that it has not explicitly stated that the potential impact of said conditions from share repurchases will be neutralized when determining award vesting.

i. The repurchase authorisation is exclusively requested to service share-based incentive plans provided that ECGS opposes said plans.

Note: *This condition will not apply to previously approved share-based plans.*

j. The repurchase authorisation is exclusively requested to offset a scrip dividend provided that ECGS opposes said scrip dividend.

k. The repurchase authorisation may be used as an anti-takeover defence.

Note: *During a public offer, repurchase authorisations employed as anti-takeover defences will be assessed on a case-by-case basis in light of the ECGS Corporate Governance Principles. However, consideration will be given to the acquirer's objectives and track record and to the long term interest of the Company and its stakeholders.*

6. MERGERS, ACQUISITIONS AND RESTRUCTURINGS

VOTE FOR the proposal. **ECGS will OPPOSE the proposal if** one or more of the following conditions apply:

a. Available information is not sufficient to make an informed decision.

b. The "fairness opinion" was not provided by an independent institution in compliance with best practices.

c. The strategic interest of the proposed transaction is not consistent with the long term interests of the Company and its stakeholders.

d. The financial terms of the transaction do not treat all shareholders equally.

e. The transaction would result in a significant deterioration of shareholder rights, corporate governance, human and labour rights and/or the environment.

f. The transaction re-locates a Company's headquarters in a manner that significantly undermines the rights of shareholders and/or other stakeholders, or is solely motivated by tax purposes.

Note: *When analysing financial terms of M&A transactions, analysts should endeavour to look at (i) premium proposed vs. un-affected market price, (ii) the pricing of new shares vs. un-affected market price in case of public exchange offer, (iii) precedent transactions in the same sector, and (iv) leverage employed to finance a transaction. These terms are by no means exhaustive or necessarily relevant for every transaction and should be considered only to the extent that they are readily available or easily computed, and most importantly, if they are deemed to harm shareholder interests over the long term.*

7. Shareholder rights and changes in the Articles of Association

Note: *Situations that do not fall under a specific recommendation are to be assessed in light of ECGS Principles of Corporate Governance.*

7.1. Changes to voting guidelines

ECGS will OPPOSE the proposal if one or more of the following changes are requested:

a. Creation of share classes with multiple voting rights.
b. Creation of preferred shares or non-voting shares.
c. Introduction of a voting cap or other restriction of voting rights.
d. Introduction of supermajority voting requirements.

7.2. Share ownership threshold

VOTE FOR the proposal. **ECGS will OPPOSE the proposal if** the proposed thresholds are below local market practices.

7.3. Introduction of anti-takeover provisions

ECGS will OPPOSE the proposal unless the Company provides a convincing explanation that said provisions are exceptional and necessary for the preservation of the long term interests of the Company and its stakeholders.

Switzerland: ECGS will OPPOSE the introduction of opt-up and opt-out clauses or vote FOR their removal should they already exist. The replacement of an opt-out clause with an opt-up clause could be accepted.

7.4. Other amendments to the Articles of Association

VOTE FOR the proposal. **ECGS will OPPOSE the proposal if** one or more of the following conditions apply:

a. The Company fails to provide sufficient information to enable shareholders to assess the impact of the amendment(s).
b. Proposed changes undermine shareholder rights or the Company's governance.
c. The amendment(s) have negatively impact the Company's long term interests.
d. Several changes are proposed in a bundled resolution including an amendment having a significant negative impact on shareholder rights.

8. SHAREHOLDER RESOLUTIONS

Shareholder resolutions are assessed on a **case-by-case** basis in accordance with ECGS Corporate Governance principles.

VOTE FOR a shareholder resolution if one or more of the following conditions apply:

a. It is coherent and valid.

b. It adheres to corporate governance best practices and ECGS Corporate Governance principles.

c. It is in line with the long term interests of the majority of stakeholders.

d. It improves corporate governance or enhances social and environmental responsibility.

e. It calls for a special audit deemed beneficial to the interests of the Company and its stakeholders.

Note: *A special audit would reinforce shareholder trust in management and alleviate doubt should misconduct arise*.

Note: *ECGS will OPPOSE any motion by the Board or shareholders to submit a proposal to a vote should it fail to appear as an agenda item sufficiently in advance of a general meeting.*

9. Other Items

9.1. Resolutions that are not on the agenda

ECGS will OPPOSE any motion by the Board or shareholders to submit a proposal to a vote filed under "Other business" or "miscellaneous" should it fail to appear as an agenda item sufficiently in advance of a general meeting.

9.2. Political donations (United Kingdom)

VOTE FOR the proposal. **ECGS will OPPOSE the proposal if** total authorized political donations exceed £ 100,000.

Note: *Political donations to entities outside of the United Kingdom will not be considered as part of this authorisation.*

9.3. Luxury or non-tax-deductible expenses

VOTE FOR the proposal. **ECGS will OPPOSE the proposal if** specific luxury or non-tax-deductible expenses are material and not properly justified.

9.4. Approval of change in control provisions in a credit facility

VOTE FOR the proposal. **ECGS will OPPOSE the proposal if** the terms and conditions of the change of control provisions are not in line with market practice.

9.5. Election or re-election of the Independent Representative (Switzerland)

VOTE FOR the proposal. **ECGS will OPPOSE the proposal if** one or more of the following conditions apply:

a. Insufficient information is provided concerning the nominee.

b. The nominee maintains a questionable reputation or has been associated with less than exemplary past behaviour and/or attitudes.

c. The nominee's independence could not be reasonably guaranteed.