

GUIDELINES
FOR
ERAFFP'S
SHAREHOLDER
ENGAGEMENT
2019 VERSION

INTRODUCTION

Under its SRI Charter, “ERAFP is determined to support, on a long-term basis, those organisations in which it has decided to invest, by exercising its responsibilities as shareholder or stakeholder in such a way as to sustainably promote, within these entities, practices that respect the values it supports.” In other words, ERAFP intends to be an active shareholder and, to that end, engage with those issuers in which it has either made or is considering an investment.

This engagement includes all forms of dialogue between an institutional investor and a company/an issuer:

- public or targeted communications (e.g. via “customised” mailings);
- meetings with management;
- collaborative engagement initiatives;
- voting at shareholders’ meetings;
- *etc.*

Depending on the investment method (direct or delegated to asset managers), the engagement may be performed directly by the investor or delegated to a service provider.

The approach may be conducted individually or collectively, for example through alliances or shareholder and institutional investor coalitions.

The engagement process and its various components (e.g. exercise of voting rights) is more effective when circumscribed by guidelines. In the specific case of voting, the guidelines specify the investor’s position on issues that may be addressed in shareholders’ meeting resolutions (equity transactions, composition of the Board of Directors, executive remuneration, social and environmental issues, etc.).

ERAFP’s SRI guidelines on companies address — under the value of Good Governance and Transparency — certain subjects that come up for a vote at shareholders’ meetings, but these guidelines are not sufficiently detailed to cover in a comprehensive manner all resolutions presented to the shareholders’ meeting for approval.

ERAFP has therefore decided to adopt guidelines for engagement, including the exercise of voting rights.

These guidelines serve as a reference for ERAFP’s proxies to fulfil their respective mandates. They therefore cover the following categories of activities:

- shareholder engagement;
- exercise of voting rights.

The section of these guidelines relating to the exercise of voting rights is reviewed annually.

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PRINCIPLES FOR RESPONSIBLE INVESTMENT

As a long-term investor, ERAFP has a duty to act in the long-term interests of its beneficiaries. In this fiduciary role, ERAFP believes that environmental, social and governance (ESG) issues can influence investment portfolio performance.

Since it was founded, ERAFP is convinced that taking ESG issues into account will make the Scheme more likely to satisfy its commitments to beneficiaries and align its investment activities with the general interests of society as a whole.

In 2006, ERAFP became a signatory to the Principles for Responsible Investment (PRI) of the United Nations (www.unpri.org).

ERAFP's SRI policy therefore needs to be consistent with the PRI.

Consequently, because it is compatible with our fiduciary responsibility, i.e. our responsibility to the Scheme's beneficiaries, we have made the following commitments:

- we incorporate ESG considerations into our investment analysis and decision-making processes;
- we are active owners and incorporate ESG issues into an ownership policies and practices;
- we ask appropriate disclosure on ESG issues by the entities in which we invest;
- we promote the acceptance and implementation of the Principles within the investment industry;
- we work with the other PRI signatories in order to enhance our effectiveness in implementing the Principles;
- we report individually on our activities and progress towards implementing the Principles.

RELATIONS WITH MANAGEMENT COMPANIES

ERAFP's equity investments are made through French-registered investment funds (FCPs) whose management is delegated to investment companies.

As a result, ERAFP:

- does not directly own the shares in the portfolio but instead owns shares in the FCPs;
- does not therefore directly exercise the voting rights associated with the shares making up the portfolios.

However, ERAFP's investment mandates specify that "the mandate-holder agrees to exercise the voting rights attached to the FCP's financial instruments in the exclusive interests of ERAFP, in accordance with its orientations, and, in particular, in compliance with the SRI Charter".

Once ERAFP adopts guidelines for shareholder engagement and the exercise of voting rights, these guidelines are to be followed by the investment mandate-holders in the review of the resolutions submitted to shareholders' meetings and in the exercise of corresponding voting rights.

ERAFP asks that the reporting performed by the investment companies under their mandate contain a description of the manner in which they take into account its guidelines as regards shareholder engagement and the exercise of voting rights.

ERAFP's policy is to remain a non-controlling shareholder, whose relative share ownership varies in accordance with the management decisions taken by its fund managers. Consequently, it does not need to be represented in the companies' governance bodies.

Following the revision of the ERAFP's SRI Charter in 2016, undertaken by the Board of Directors to accompany the diversification of the Scheme's investments and adapt to extra-financial developments, the SRI approach was enhanced by a mechanism for more in-depth monitoring of controversial issues.

In this context, the management companies are required to monitor the controversial issues to which the issuers may be exposed. As part of ERAFP's shareholder engagement, discussions are entered into with the companies involved in proven breaches of international standards, particularly with regard to the following fundamental principles:

- Universal Declaration of Human Rights,
- ILO Declaration on Fundamental Principles and Rights at Work,
- Rio Declaration on Environment and Development,
- United Nations Conventions (particularly that against corruption).

These discussions are conducted by the ERAFP mandate-holder concerned by the investment.

GENERAL PRINCIPLES

TRANSPARENCY AS REGARDS ESG PERFORMANCE

It is in the interests of shareholders and investors to have access to sufficient information on companies' environmental, social and governance policies and practices in order to assess and compare their risks and performance in these areas.

One obstacle to the incorporation of ESG performance criteria into investment decision-making is the lack of useful and comparable information.

ERAFP prefers the most widely used reporting standards whose governance is transparent and includes the stakeholders, such as **the Global Reporting Initiative (GRI), Carbon Disclosure Project (CDP), and the Extractive Industries Transparency Initiative (EITI).**

ERAFP has expressed its interest in **the Global Initiative Sustainability Ratings¹ (GISR)**, launched in June 2011 and aimed at improving the quality and reliability of company ESG performance assessment systems.

ERAFP confirms its interest in reports, preferably those drafted by independent third parties, that assess the non-financial risks associated with a project, site, practice or type of product and that make recommendations on ways to improve the management of these risks. Moreover, ERAFP encourages the companies to disclose their discretionary financial contributions or other forms of contributions to lobbying groups or political and non-governmental organisations.

Considering that the consequences of climate change are probably one of the risk factors most likely to have a long-term impact on the valuation of its assets, ERAFP supports the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) aimed at measuring climate change-related risks and opportunities for investors and companies. ERAFP also adheres to the requirements of Article 173 of the French Energy Transition for Green Growth Act.

| A need of
| information

1_See: <http://www.ceres.org/press/press-releases/a-single-measure-unbiased-results-ceres-tellus-unveil-global-initiative-for-a-standardized-comprehensive-corporate-sustainability-rating>

SOCIAL AND SOCIETAL RESPONSIBILITY AND COMPLIANCE WITH NATIONAL AND INTERNATIONAL LAW

ERAFP reiterates its wish that the companies in which it invests adopt policies and management systems in order to exercise their activities in accordance with the laws and regulations of their host countries and international law as established by treaties, declarations, conventions and other laws widely adopted by the international community or that are multilateral, in particular:

- Universal Declaration of Human Rights
- United Nations Guiding Principles on Business and Human Rights
- Conventions adopted by the International Labour Organisation (ILO), specifically:
 - Convention 87 on the freedom of association
 - Convention 98 on the right to organise and collective bargaining
 - Conventions 29 and 105 on forced labour
 - Convention 111 on employment discrimination
 - Convention 100 on equal remuneration
 - Conventions 138 and 182 on child labour
 - Convention 155 on occupational safety and health
- International Covenant on Economic, Social and Cultural Rights
- United Nations Declaration on the Rights of Indigenous Peoples
- Rio Declaration on the Environment and Development;
- United Nations Convention Against Corruption
- OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions
- OECD Guidelines for Multinational Enterprises
- OECD Principles of Corporate Governance internationales
- Principes directeurs de l'OCDE à l'intention des multinationales
- Principes de gouvernement d'entreprise de l'OCDE

These agreements provide universal references through which company behaviours can be objectively assessed and ensure the greatest comprehensiveness of topics discussed.

ERAFP welcomes the adoption of the **United Nations Guiding Principles on Business and Human Rights**². It also welcomes the OECD alignment of its Guidelines for Multinational Enterprises³ with this UN text and its conceptual “protect, respect and remedy” framework, and the adoption, to a lesser extent, by the International Finance Corporation⁴ of these same principles. Although these guiding principles are not legally binding, they nevertheless constitute a major step forward in terms of evaluating the impact of business activities on human rights. As such, ERAFP favours the implementation in OECD member states of National Contact Points with extensive powers.

ERAFP underscores that respect for international law, notably the ILO principles, can have a positive impact as regards the working conditions of local employees. This improvement can then affect disposable income and consumption of healthcare and educational services and goods. Companies thereby indirectly contribute to improvements in the skills of workers even as they open up new markets. Since economic development is closely correlated to the existence of political democracy, this development enables companies to pursue their activities in a more stable and secure context.

ERAFP reiterates its emphasis on a dialogue with internal and external stakeholders, which represents a source of sustainable company performance: in order to manage their ESG risks effectively, companies have an interest in discussing and reaching agreement with the stakeholders of their projects (employees, shareholders, lenders, suppliers, clients, local communities, NGOs).

As a public service additional pension scheme naturally attached to public service and its related values, ERAFP is concerned about the growth on one hand of tax evasion and on the other of legally abusive structures designed essentially to avoid tax (aggressive tax optimisation).

²http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_FR.pdf

³<http://www.oecd.org/fr/daf/inv/mne/48004355.pdf>

⁴http://www.ifc.org/wps/wcm/connect/b9dadb004a73e7a8a273fff998895a12/IFC_Sustainability_Framework.pdf?MOD=AJPERE

ERAFP is sensitive to the role played in the marked rise in this practice by territories considered to be legal and tax havens.

ERAFP therefore advocates the application in corporate financial reporting of financial transparency requirements, and in particular individual financial reporting for each country in which a company is present. It was with this in mind that ERAFP became a **signatory to the Extractive Industries Transparency Initiative**, and that it will support any shareholder or issuer-led initiatives that promote financial transparency and the payment by companies of taxes due in the countries where they operate and produce or market their products and services.

Lastly, ERAFP welcomes the adoption by the 193 UN members states of the 2030 Agenda for Sustainable Development in September 2015. This program is based on 17 sustainable development goals (SDGs)⁵ that, together with the Paris Agreement⁶ on climate change, aim to eradicate all forms of poverty, fight inequality and combat global warming, while ensuring that no stakeholder is excluded. While the SDGs are not legally binding, they are nevertheless a significant step forward as regards measuring the impact of corporate activities in this areas. ERAFP therefore encourages companies to commit to the SDGs and to uphold the paris agreement.

A financial
transparency
requirement

5_ http://www.un.org/fr/documents/view_doc.asp?symbol=A/69/L.85

6_ <http://unfccc.int/resource/docs/2015/cop21/fre/l09r01f.pdf>

LONG-TERM SHARE OWNERSHIP

ERAFP is, by its nature, a long-term investor inclined to hold securities in its portfolio over a number of years. In a decision taken at its meeting of 10 November 2005, ERAFP's board of directors resolved to "adopt an investment policy that takes into account the public interest, in a proactive and ongoing manner.

Indeed, the board of directors believes that investments made with a sole view to maximise financial profit ignore social, economic and environmental impacts.

By contrast, by investing in accordance with pre-established values, as reiterated in these guidelines, the board seeks to both increase the value of the businesses, companies, public authorities and governments that comply with this set of values and contribute to their wider application."⁷

Take into
account the
public interest

7_extract from ERAFP's SRI Charter

With this in mind and in respect of its equity investments, ERAFP is committed to promoting the strategies of companies that require the short, medium and long-term economic, social and environmental impact of decisions to be taken into account in an integrated manner. Accordingly, the assessment of a company's performance cannot be based solely on the analysis of financial factors, but must also include that of criteria giving a broader appreciation of the consistency of its business plan with sustainable and responsible development goals. For example, ERAFP seeks to promote:

- profit distribution policies that prioritise maintaining the necessary balance between investment capacity, debt, employee remuneration and shareholder remuneration. As such, ERAFP supports the concept of the “responsible dividend”;
- executive pay systems that incentivise managers to seek to improve the company's social and environmental practices.

For ERAFP, the issue of securing shareholder loyalty is crucial. It is therefore sensitive to the various proposals that encourage and reward long-term shareholder engagement.

The two mechanisms most frequently used by companies to attract and keep shareholders are the introduction of double voting rights and the use of the loyalty dividend, for which investors are eligible if they hold shares on a registered basis for two or more years.

ERAFP believes that shareholders' voting rights should be proportional to their respective holdings, as the allocation of double voting rights can lead to significant distortions between the share of a company's capital that a shareholder owns and his actual level of control.

Using a loyalty dividend does not carry the same risk and can therefore be considered an appropriate way of rewarding shareholders who have held their shares for a number of years, especially as in some countries - France, for example - there is little interest for an influential shareholder to abuse this practice because the law⁸ limits:

- the dividend gross-up to 10%;
- the shareholder's maximum holdings eligible for the loyalty dividend to 0,5% of the company's equity.

However, neither of these two mechanisms constitutes a genuinely effective incentive to long-term share ownership, at least for an institutional investor like ERAFP. This is because only investors with registered shares are likely to benefit from this type of system, whereas most institutional investors hold shares in bearer form to avoid the associated bureaucracy and the cost involved in transferring shares into a registered account.

A performance
appreciated according
ESG criteria

⁸ Article L.232-14 of the French commercial code (Code de commerce)

SHAREHOLDER ENGAGEMENT PRIORITIES FOR 2019

In 2019, ERAFP will focus in particular on collaborative initiatives covering the following main themes:

- the fight against climate change, the promotion of strategies to reduce corporate greenhouse gas emissions and contribute to the transition to alternative energy sources;
- combatting aggressive tax optimisation, in particular by promoting greater transparency in financial reporting by multinational groups;
- promoting international governance best practice, notably in Asia;
- the prevention of employee-related risks in the supply chain.

ERAFP's position on matters likely to be subject to discussion at shareholder meetings is detailed in the following section on voting policy.

In 2019, in the context of implementing this policy, ERAFP will pay particular attention to the following themes:

- transparency of the company's business and its financial position;
- the implementation of responsible dividend distribution policies;
- the proportion of women on boards;
- the promotion of the principles of transparency, equity and moderation in determining executive remuneration.

VOTING POLICY FOR SHAREHOLDER MEETINGS IN 2019

The guidelines listed below describe ERAFP's policy for exercising voting rights during the 2019 shareholders' meeting season. This policy consists of two parts:

- **the first** describes the voting principles for each major topic of resolutions submitted for a shareholder vote;
- **the second** constitutes a working tool for internal use and for use by investment companies to which ERAFP has delegated the management of equities; this tool indicates the specific criteria obtained from the previously defined principles that would lead to a recommendation to vote against a resolution.

SUMMARY

ERAFP manages the assets of a large number of beneficiaries. In order to best defend the long-term interests of the people that it represents, ERAFP directly or indirectly exercises all of its shareholder rights, starting with voting rights.

ERAFP believes that adherence to corporate governance best practices is indispensable to the creation of sustainable value for all stakeholders. The voting policy presented herein therefore aims to improve corporate governance practices and protect to the greatest extent possible the assets of the Scheme's ultimate beneficiaries, as part of an overall responsibility.

This policy for exercising voting rights is consistent with the Socially Responsible Investment Charter defined by ERAFP and its commitment to *"support, on a long-term basis, those bodies in which it has decided to invest, by exercising its responsibilities as shareholder or stakeholder in such a way as to sustainably promote, within these entities, practices that uphold the values it supports."*

Indeed, voting during shareholders' meetings of listed companies represents an opportunity to take a position on the set of values defined in this Charter, in particular:

- good governance (balance of powers and effectiveness of deliberative and executive bodies, effectiveness of audit and control systems, method for determining remuneration of company executive officers, etc.),
- equitable sharing of added value through promoting the concept of responsible dividends;
- transparency and responsibility with regard to tax and lobbying;
- transparency as regards the activity and financial situation (existence, quality and certification of annual reports, etc.);
- certain environmental and social issues, when the applicable regulatory provisions make it relatively easy to include resolutions on these subjects on the agenda.

ERAFP'S VOTING POLICY IS ORGANISED AROUND SIX SUBJECTS

I APPROVAL OF FINANCIAL STATEMENTS AND MANAGEMENT

Transparency as regards the company's activity and its financial and extra-financial situation, effectiveness of the audit and control systems

II BOARD OF DIRECTORS OR SUPERVISORY BOARD

Good governance - Balance of powers and effectiveness of deliberative and executive bodies

III PROFIT DISTRIBUTION, MANAGEMENT OF SHAREHOLDERS' EQUITY AND EQUITY TRANSACTIONS

Respecting long-term shareholders, giving priority to investments and distributing profits fairly

IV EXECUTIVE REMUNERATION

Fairness, moderation and transparency of remuneration

V SHAREHOLDER RIGHTS

Fair treatment of shareholders - Respect for the "one share, one vote" principle

VI EXTERNAL RESOLUTIONS, PARTICULARLY OF AN ENVIRONMENTAL OR SOCIAL NATURE

Transparency as regards and anticipation and restriction of the environmental and social impact of the company's activity

VOTING PRINCIPLES

■ I. APPROVAL OF FINANCIAL STATEMENTS AND MANAGEMENT

Transparency as regards the company's activity and its financial and extra-financial situation, effectiveness of the audit and control systems

I.1 APPROVAL OF FINANCIAL STATEMENTS AND DISCHARGE OF DUTIES

Company information must be available within time periods that enable all shareholders to analyse these matters in advance. In particular, companies must comply with the deadlines introduced by the transposition of the **European Directive on shareholder rights** as regards online posting of financial statements and statutory auditors' reports, namely at least 21 days prior to the shareholders' general meeting. The information must be truthful and coherent, and the strategy presented must be transparent and stable. Controversial changes in accounting methods will be viewed negatively. Comments by statutory auditors deemed significant may also result in a vote against the resolution.

The absence in the annual financial statements of individual financial reporting for each country in which a company is present may lead to a vote against the resolution. In this area, ERAFP will initially focus on financial sector companies⁹ for which financial transparency has a particular significance and, on companies with turnover of more than €750 million¹⁰. ERAFP defines financial reporting as all information required by the French monetary and financial code (*Code monétaire et financier*)¹¹, namely, for each state or territory¹²:

- 1° Name of sites and type of business;
- 2° Net banking income or not turnover;
- 3° Full time equivalent headcount;
- 4° Pre-tax profit/loss;
- 5° Amount of income tax due attributable to company sites;

9_i.e., in the financial sector corresponding to the level 1 "40" code in the GICS classification, the two banks and diversified financials "industry groups" whose level 2 codes are 4010 and 4020 - source GICS structure & sub-industry definitions.

10_ Threshold per the proposal for a directive of the European Parliament and of the Council, 2016/0107/COD, Article 223 quinques C of the French general tax code (Code général des impôts) and the associated implementing decree of 29 September 2016, <https://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000033171592&categorieLien=id>

11_ http://www.legifrance.gouv.fr/affichTexteArticle.do;jsessionid=2AF-627D9AA12D7283541C81489308783.tpdjo05v_1?idArticle=JORFARTI000027754658&cidTexte=JORFTEXT000027754539&dateTexte=29990101&categorieLien=id

12_ For the information referred to in points 2 to 6, data is aggregated at the level of the states or territories in question

- 6° Public subsidies received.

ERAFP will also promote country-by-country reporting in other sectors regardless of the size of the company and does not exclude voting against approval of the financial statements of non-financial companies with turnover of less than €750 million that do not provide adequate detail on the geographic breakdown of their activities; as a minimum, this would comprise for each country:

- revenue;
- headcount;
- profit or loss before tax.

In future years ERAFP will consider extending its requirements in terms of financial transparency depending on the practices observed.

The failure to report substantial payments made by companies in the extractive and forestry sector to the governments of countries in which they operate in a separate annual report, broken down per country and per project, may lead to a negative vote. The types of payments disclosed in these reports must be comparable to those published by companies that adhere to the **Extractive Industries Transparency Initiative (EITI)** and comply with the **European Directive on the transparency of the extractive industries**¹³.

The absence of sufficiently detailed and credible extra-financial reporting to realistically estimate the company's environmental and social impacts as well as the policies it has developed and the measures it has taken to control these impacts may also lead to a negative vote.

ERAFP does not favour the inclusion of a request for discharge of duties on the meeting agendas. The discharge of duties could impede the initiation of a liability suit against the company officers and directors by investors who have previously voted in favour of it. Third-party asset management companies might view this request for discharge of duties as harmful to their fiduciary responsibility, since it is difficult to grant this favour to company officers and directors while still looking to protect the interests of their own shareholders or the companies giving them the investment mandate. A concession may nevertheless be granted if the request for discharge of duties is associated with the approval of the financial statements, in order to avoid their rejection, or in certain countries where it has no legal value.

I.2 APPROVAL OF RELATED-PARTY AGREEMENTS

13_ Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013: <http://eur-lex.europa.eu/legal-content/FR/TXT/PDF/?uri=CELEX:32013L0034&from=FR>

Related-party agreements are a key topic, since they involve shareholders being asked to approve agreements signed with related parties. It should be noted that directly or indirectly interested parties should abstain from voting.

In their special report on regulated agreements, the statutory auditors must provide all information enabling shareholders to vote, so as to satisfy article R.225-31 of the French Commercial Code (Code du commerce)¹⁴.

The agreements must all be signed in the interests of all shareholders, which implies that they must be clearly laid out and strategically justified and that their conditions must be equitable as regards the interests of all shareholders.

ERAFP does not support the existence of related-party agreements corresponding to deferred remuneration such as top-up pension plans for company officers. As regards defined contribution plans, they are acceptable as long as the contributions between the beneficiary and company are shared in an equitable manner.

Related-party agreements corresponding to retirement benefits must be strictly limited according to the principles identified below in the section on remuneration of company executives.

Note lastly that Article L.225-40 of the French commercial code stipulates in particular that:

- the chairman of the board of directors must obtain the statutory auditors' opinion on all authorised agreements and submit these agreements for the general meeting's approval;
- the statutory auditors must present a special report on these

¹⁴ Article R225-31 Version in effect at 25 January 2012, since 27 March 2007

The statutory auditors' report covered under paragraph 3 of article L. 225-40 contains:

1. The listing of agreements and commitments submitted to the shareholders' meeting for approval;
2. The names of interested directors;
3. The name(s) of the interested chief executive officer or deputy chief executive officer(s);
4. The designation of the interested shareholder or shareholders holding a voting block of more than 10% and, if it involves a shareholding company, the controlling company as defined by article L. 233-3;
5. The nature and purpose of these agreements and commitments;
6. The essential provisions of these agreements and commitments, notably the indication of prices or rates applied, rebates and commissions agreed to, payment deadlines granted, stipulated interests, collateral extended, the nature, amount and methods for granting each of the benefits or indemnities mentioned in articles L. 225-22-1 and L. 225-42-1 and, where applicable, all other indications enabling shareholders to assess the interest at stake in the conclusion of the agreements and commitments being reviewed;
7. The list of agreements and commitments entered into and authorised during previous financial years which remained in effect during the last financial year and which were reviewed by the Board of Directors in accordance with Article L. 225-40-1, as well as, where applicable, any information enabling shareholders to assess the interest for the company of maintaining the listed agreements and commitments, the importance of the goods delivered or services provided as well as the amount of payments made or received during the year, pursuant to these agreements and commitments.

Source: <https://www.legifrance.gouv.fr/affichCodeArticle.do?idArticle=LEGIARTI000030680168&cidTexte=LEGITEXT000005634379&dateTexte=20181107>

agreements to the general meeting, which must then put this report to the vote.

ERAFP therefore considers that the general meeting should be able to vote on all regulated agreements, including ongoing ones that have already been approved, through the vote on the statutory auditors' special report. With this in mind, ERAFP will use its vote to show its disapproval of the continued implementation of regulated agreements that have already been approved but do not comply with its voting policy principles.

I.3 STATUTORY AUDITORS

The statutory auditors play a critical role in the effectiveness of the control systems and confidence in the group's financial statements. ERAFP's voting policy aims to help monitor the independence of the statutory auditors. In this regard, certain rules aimed at encouraging the rotation of the statutory auditors and restricting fees unrelated to accounts certification duties can help limit potential conflicts of interest.

The French system is characterised by the operation in tandem of two principal statutory auditors and the appointment of two alternate statutory auditors that play a less significant role¹⁵. As a result, statutory auditors, who must be able to carry out their assignment in a fully independent manner, may be subject to less strict rotation rules than in foreign systems with single statutory auditors.

As such, in France, the principal statutory auditors or their representative, who are/is elected for a six-year term, should not be elected more than three times in a row at the same company (i.e. the maximum tenure should be 18 years) nor certify the financial statements of affiliated listed companies or the controlling shareholder.

ERAFP also promotes the independence of statutory auditors by requesting that any fees other than those received as part of the legally required certification of the financial statements be clearly disclosed and not substantial.

As regards the alternate statutory auditors, they should be able to take over the auditing responsibilities from the principal statutory auditors if there is a sudden vacancy in the auditing assignment, for example in the event of a resignation following

¹⁵ Since Act 2016-1691 of 9 December 2016, the appointment of one more alternate statutory auditors is now a legal requirement only if the holder of the office is an individual or a one-person company. Alternate statutory auditors may however still be appointed voluntarily, in the same way as principal statutory auditors.

a conflict, and therefore the alternate statutory auditors should not belong to the same firm as the principal statutory auditors.

■ II. BOARD OF DIRECTORS OR SUPERVISORY BOARD

Good governance: Balance of powers and effectiveness of deliberative and executive bodies

II.1 ELECTION OF BOARD MEMBERS

The Board's composition should reflect a balance of expertise, experience and independence in the interests of the company and its shareholders. The primary quality of a Board lies in its composition: honest directors, who have a clear understanding of how the company works, pay close attention to the interests of all shareholders and stakeholders and are sufficiently involved in the definition of the strategy and deliberations to participate effectively in all the Board's collegial decisions.

The shareholders' general meeting must be able to vote on each candidate separately, and ERAFP does not favour the practice of block voting. Nevertheless, in countries such as Italy where election by list is common practice, cases are assessed individually and ERAFP may sometimes vote in favour of a list if the proposed candidates do not pose a major problem.

In publicly traded companies, it is important to ensure that the company will be governed in the interests of all shareholders and, more generally, its legitimate stakeholders, and not just in the interests of one or more specific shareholder(s). ERAFP therefore believes that it is important for a significant proportion of the Board of Directors to be made up of directors who are considered independent or "free from potential conflicts of interest". For large companies, independent directors should make up half of the Board. For controlled companies that cannot achieve this objective, the Board should strive to have at least one-third independent directors.

In that regard it is important to note that the description of a director as free of conflicts of interests is not a value judgment. This description does not mean that the person will necessarily act in the interests of shareholders to a greater extent, but merely states the objective situation of a director who is not considered to have potential conflicts of interest. Specifically, it does not apply to:

- managers and former managers (including managers

- of acquired entities or subsidiaries);
- employees and former employees within the past five years;
- shareholder(s) owning at least 3% of the voting rights and its/their representatives (which includes any person who has ties to this/these shareholder(s));
- parents and relatives of the managers;
- current representatives or former representatives within the past three years of clients, suppliers, service providers (lawyers, consultants, auditors, etc.), creditors, partners or any other contracting partner with the Group;
- persons receiving significant and special remuneration for services provided to companies of a Group, its controlling shareholder or its managers;
- persons belonging to a Group administered by one of the company's managers (direct or indirect cross directorship);
- persons who within the past three years have been involved in a major strategic transaction (asset transfer, merger, etc.);
- commercial and investment bankers, heads of large financial institutions and former bank managers who have held these positions within the past three years if the institution in which they work/worked has or has recently had a business relationship with the company concerned;
- persons who hold political office (conflict of interest between public and private interests);
- directors whose term of office or presence at the company or Group is equal to or greater than 12 years;
- directors appointed through means other than a formal election by the shareholders' meeting (positions provided for in Articles of Association or by law);
- persons with ties to a competing company.

Diversity of boards of directors

ERAFP encourages boards to recruit nominees from as wide a spectrum as possible in order to ensure a high degree of diversity, notably as regards female representation. That could constitute a favourable factor in support of an appointment. ERAFP encourages companies to undertake measures that will allow them in the medium term to have a board consisting of a significant proportion of women. In France, the 2011 Copé-Zimmerman law requires boards of directors of listed companies to comply with gender

quotas, with the objective of 40% of female members by 2017¹⁶. In Europe, except in cases where national laws set higher targets, companies are encouraged to comply at least with the objective set by the former European Justice Commissioner Viviane Reding: 40% of female members by 2020¹⁷. With this in mind, ERAFP considers that by the end of the 2019 general meetings season all European and US companies should have a board made up of at least 40% women, and will therefore vote against any appointment that prevents this target from being achieved. Lastly, ERAFP will support the relevant proposals in any country where there is an initiative involving investors aimed at increasing the proportion of women on boards.¹⁸

To take better account of the specific features of each company, ERAFP may recommend supporting the proposed appointment of candidates who would strengthen the board of directors in a particularly problematic area, even if the other criteria are not complied with. For example, ERAFP may support a female candidate presenting conflicts of interest (or holding an excessive number of board appointments, etc.) if the proportion of women on the board of directors is particularly low and even if fewer than half of the board members present no conflicts of interest. Conversely, a male candidate presenting no conflicts of interest may also be supported if the proportion of women on the board of directors is only marginally below 40% and if the board of directors as a whole presents significant conflicts of interest.

Salaried directors

In order for a wider range of companies' legitimate stakeholders to be represented on boards, ERAFP also intends to encourage boards to allocate seats to employee representative directors.

Insofar as they are inclined to defend the interests of a specific stakeholder (the company's employees), employee representatives cannot be considered to be completely free of conflicts of interest. Nonetheless, because they have no ties to the company's management or shareholders, they are in a position to put forward critical arguments with respect to the latter. For this reason ERAFP believes that employee representatives should not be taken into account when determining the board's independent director ratio.

¹⁶ This law set an interim objective of 20% of female members by 2014

¹⁷ The commissioner set an interim objective of 30% of female members by 2015

¹⁸ The "30% Club" in the United Kingdom and the "US Thirty Percent Coalition" in the United States

Moreover, the law on security of employment of 14 June 2013¹⁹ reinforced by the law on labour-management dialogue and employment of 17 August 2015²⁰, provides for employee representation on the board of directors of French companies with at least 1,000 employees if their registered offices, including those of their subsidiaries, are in France, and with at least 5,000 employees if their registered offices, including those of their subsidiaries, are in France and overseas. There must be at least two directors representing employees in companies with more than 12 directors and at least one in companies with 12 or fewer directors. If a board has two directors representing employees, it must comply with the gender parity principle.

Over the past few years, ERAFP has noted that certain French companies are deemed to fall outside the scope of application of the law given the "holding company" status of the parent company. In 2019, if it is clear that the company is acting against the spirit of the law in question, ERAFP will recommend voting against the renewal of the appointment of members of the appointments committee.

Employee-shareholder directors

In order for a wider range of companies' legitimate stakeholders to be represented on boards, ERAFP also intends to encourage boards to allocate seats to directors representing the employee-shareholders. Insofar as they are inclined to defend the interests of a specific stakeholder (the employee-shareholders), employee-shareholder representatives cannot be considered to be completely free of conflicts of interest. Nonetheless, because they have no ties to the company's management or shareholders, they are in a position to put forward critical arguments with respect to the latter. For this reason ERAFP believes that employee-shareholder representatives should not be taken into account when determining the board's independent director ratio.

Combination of the functions of Chairman and Chief Executive Officer

The Board of Directors must be able to exercise objective judgement on the company's affairs. The combination of the Chairman of the Board and Chief Executive Officer functions creates a potential conflict of interest on all matters taken up by the board of directors (strategy, evaluation of the top company officer, remuneration, audit, succession process planning). It is

¹⁹ <https://www.legifrance.gouv.fr/affichTexte.do?cidText=JORFTEXT000027546648&categorieLien=id>

²⁰ Law no.2015-994 of 17 August 2015 on labour-management dialogue and employment <https://www.legifrance.gouv.fr/affichTexte.do?cidText=JORFTEXT000027546648&categorieLien=id>

highly preferable that the Chief Executive Officer be accountable to an independent Chairman of the Board who is in a better position to organise the work of the Board of Directors and to oversee and evaluate management, if applicable. ERAFP therefore recommends a separation of roles Chairman of the Board and Chief Executive Officer. However, in certain specific cases, the combination of roles may be accepted, exceptionally and temporarily. The checks and balances in place in such cases should be sufficient to counterbalance the power of the Chairman and Chief Executive Officer, and the combination of roles should be justifiable given the company's context. Moreover, unless the company's context continues to justify otherwise, ERAFP would prefer the company to return to a situation of separation of functions.

Preferably, the position of Chairman of the Board should not be held by the former Chief Executive Officer or Chairman and Chief Executive Officer, although a transitional board term may be accepted in order to promote the separation of functions. When selecting a new Chief Executive Officer or Chairman of the Board, the Board must reassess the appropriateness of combining functions for the company and encourage the separation of functions.

Lastly, the proposed appointment of a lead independent director or non-independent chairman is not enough to ensure a valid alternative to the separation of functions. Nevertheless, should a company decide to create the position of lead independent director, as a minimum the person concerned should be free of any conflicts of interest.

Number of board positions

The unavailability of any candidate who holds too many board positions at listed companies or large organisations in France or abroad, or, if the candidate is an executive officer of a listed company, other non-executive board positions outside his main group, constitutes grounds for opposition regardless of the board's composition. ERAFP also discourages any practice of cross directorship, be it direct or indirect (e.g. through persons with family ties).

Finally, directors need to have a high attendance at board meetings. Otherwise, unless special justification is provided by the company, absences may negatively affect the renewal of a director's term of office.

Specialist Committees

The existence of specialist committees with a majority of independent members contributes to the effective operation of the board, as this facilitates a more detailed and objective preparation of board decisions. The ERAFP recommends that three separate committees are setup: an audit committee,

an appointments committee and a compensation/remuneration committee.

To ensure the independence of these committees, the ERAFP :

- recommends that at least two thirds of the members of the audit committee are directors who are free from any conflicts of interest and that this is raised to the majority of members for the appointments and compensation committees;
- considers that executive corporate officers should not sit on these committees;
- recommends that each committee is chaired by a director who is free from conflicts of interest.

When appointing directors or renewing their terms of office, a failure to comply with the above conditions may lead to ERAFP voting against the resolution.

II.2 REMUNERATION OF BOARD MEMBERS

The payment of attendance fees should, to a material extent ($\geq 30\%$ of the total amount) be subject to actual attendance at board and committee meetings.

The level of board attendance fees must be in line with those observed in the country for companies with similar market capitalisations.

Remuneration in the form of shares or share purchase warrants is generally not desirable for non-executive directors, although it may be acceptable in small- and medium-sized companies with limited resources that are seeking to attract well-qualified and independent directors, provided that such remuneration does not have a significantly higher value than the average attendance fees observed.

II.3 REMUNERATION OF THE NON-EXECUTIVE CHAIRMAN

The non-executive chairmanship of a board of directors or supervisory board involves little direct operational responsibility. It should not therefore attract remuneration disproportionately higher than the other directors' individual attendance fees.

In France, if the non-executive chairman's remuneration does not correspond to the board's attendance fees it should be governed by regulated agreements. Indeed, any significant remuneration of a chairman must be justified by specific assignments approved at a general meeting by a vote in favour of either attendance fees or a regulated agreement.

The level of remuneration of the board's chairman should not exceed that in companies of comparable size.

■ III. PROFIT DISTRIBUTION, MANAGEMENT OF SHAREHOLDERS' EQUITY AND EQUITY TRANSACTIONS

Respecting long-term shareholders, giving priority to investments and distributing profits fairly.

III.1 PROFIT DISTRIBUTION

The profit distribution policy offered to shareholders must be justified, in line with the company's strategy and outlook, notably as regards its cash flow from operations, and consistent with the profit distribution policies of the relevant business sector. ERAFP is also careful to weigh this policy against changes in the company's overall payroll expenditure in order to ensure a fair balance between employees and shareholders over the long term.

ERAFP believes that the possibility of choosing a dividend payable in shares can help to strengthen shareholders' equity and promote investment over profit distribution.

III.2 SHARE REPURCHASES AND CAPITAL REDUCTIONS

ERAFP encourages companies to invest in long-term projects and seeks to ensure that companies in need of cash do not table resolutions to authorise large-scale own share repurchases or capital reductions through the cancellation of treasury shares.

Share repurchase transactions during public offerings must be subject to the shareholders' approval, for example during an extraordinary general meeting.

However, a resolution may authorise share repurchases during a public offering if they are exclusively intended to enable execution of a share purchase plan aimed at delivering shares pursuant to an existing authorisation (to satisfy grants of options to purchase shares, conversion of OCEANES²¹, etc.) or if they make it possible to fund the acquisition of an asset through a share exchange during a strategic transaction announced to the market prior to the initiation of the public offering.

III.3 DEBT

Financial debt is both an essential financing capacity for the company and an extreme risk in the case of excessive debt. Unfortunately Order n° 2004-604 of 24 June 2004 relating to the reform of the regime for transferable securities issued by

commercial companies withdrew control of bond issues from the annual general meeting. Debt levels can therefore be controlled when requests are made to use cash to pay dividends or buy back shares.

In addition, to limit risks and contribute to the sustainable development of the companies, ERAFP encourages companies to submit a maximum level of indebtedness that must not be exceeded for approval by the shareholders at the general meeting.

III.4 CONTRIBUTIONS AND MERGERS

Any new strategic transactions involving the Group's activities or significantly modifying the parent company's shareholders' equity is reviewed to ensure the balance of four criteria:

- long-term strategic interest of the transaction;
- financial terms;
- potential impact of the transaction on governance, shareholder rights and stakeholders;
- social and environmental impact of the transaction.

III.5 PRIOR AUTHORISATION AND PREFERENTIAL SUBSCRIPTION RIGHTS

Respect for preferential subscription rights of shareholders is fundamental during capital increases, since it makes it possible to indemnify any shareholder who does not have the means or possibility of subscribing a capital increase that is well received by the market.

Requests to dilute the delegation of authority in order to cancel the preferential subscription rights of

shareholders must be strictly limited, both in terms of the discount as well as the percentage of capital requested.

Capital increases during public offerings must be submitted for the shareholders' approval, for example in the context of an extraordinary general meeting. If, in principle, the company authorises a capital increase during a public offering (it has not included in its articles of association the principle of neutrality during a public offering or has not included in the resolution the suspension of the authorisation to increase the capital during a public offering), ERAFP will vote against it unless it is shown that this increase can be used to protect the interests of the company and its employees.

²¹_OCEANE: Bond convertible or exchangeable into new and/or existing shares

■ IV. EXECUTIVE REMUNERATION

Fairness, moderation and transparency of remuneration

IV.1 EXECUTIVE REMUNERATION

a. Total remuneration

ERAFP seeks to contribute to the definition of rules in the area of remuneration for the company's executive officers that promotes their alignment with its objectives and interests as a long-term, socially responsible investor as well as with the issue of social cohesion.

Consequently, ERAFP supports regulatory or market initiatives that seek to encourage shareholder voting on executive remuneration. ERAFP is pleased to see that voting on the remuneration of company officers is becoming general practice in OECD countries. ERAFP had welcomed the introduction in June 2013 of a consultative vote on remuneration of executive corporate officers as part of the Afep/Medef corporate governance code. However, ERAFP laments the code's exclusively consultative scope. Indeed, it appears legitimate that a company's shareholders should, through these mechanisms, be able to help safeguard against any abuse or excess in terms of pay.

ERAFP welcomes the introduction by the Sapin 2 law, and the revised version of the Afep/Medef code, of a binding vote on the company's proposals, which is more respectful of the principle of sovereignty of the shareholders' meeting. ERAFP expects all companies that issue securities to the public to submit executive remuneration to a shareholders' vote.

Each year, prior to the shareholders' general meeting, remuneration for the company's executive officers must be presented in a detailed report that is itemised for each company officer and includes all fixed, variable, cash and in-kind payments, any share-based item granted as well as the carrying value for the year of any post-employment benefit in the form of supplementary retirement schemes. The same applies to the remuneration policy: it must be published in detail before the shareholders' general meeting, detailing its principles, mechanisms and the policy on the various components of executive pay, and must not be limited to providing information on the foregoing financial year.

Executive remuneration and any changes thereto, be they increases or decreases, must be in line with the company's strategy and tied mainly to its performance and changes in the long-term value of the company's shares. For ERAFP, the evaluation of the company's performance must not be based solely on economic and financial

criteria but must also reflect the social and environmental aspects of its activity. With this in mind, ERAFP seeks to promote the recognition of indicators related to the company's management of environmental, social and governance issues in the remuneration of the company's executive officers.

The remuneration of the top company officers must be exemplary in order to ensure strong social cohesion within the company. Consequently, when annual pay rises are limited for employees or the company has to implement a major redundancy programme, remuneration of company officers must reflect this (no increase in fixed remuneration, no annual bonus, no stock options or bonus share grants, limits on the variable portion).

The socially acceptable maximum amount of total remuneration (salary, benefits, options, bonus shares and top-up pension plan contributions) corresponds to 100 times the minimum salary in force in the country in which the company's registered office is located, which in France corresponds to the national minimum wage (SMIC). If there is no legally defined minimum salary in the country in which the company's registered office is located, other benchmarks may be used, such as the lowest salary paid by the company in the country in which its registered office is located. This type of ceiling should make it possible to keep differences in remuneration between managers and employees at levels that do not negatively affect the company's business or the motivation of its teams. Each Board of Directors can therefore also define a maximum gap between the remuneration of the top company officer and the company's minimum, average or median salary that would not exceed this ceiling. For example, in a large listed company ERAFP would consider a ratio of median salary to top executive salary higher than 1 to 50 to be excessive.

Following this logic, ERAFP encourages the introduction of an equity ratio, already implemented in certain countries²², allowing control of the gap between the highest remuneration and the median remuneration of company employees, with the aim of making companies more accountable for their pay practices.

As a disincentive to risk taking or excessive remuneration, the aggregate variable remuneration (maximum bonus, value of allocatable shares) should not exceed three times the basic salary (fixed remuneration).

In its analysis of executive remuneration programmes, ERAFP will also assess changes in remuneration practices and amounts over time, and the board of directors' response, particularly that of the

²² To date, the United States and the United Kingdom have legislated for introduction of an equity ratio. The Pacte Act is expected to propose the introduction of an equity ratio in the remuneration report.

remuneration committee, to any significant contestation by the shareholders.

b. Annual variable remuneration

The annual variable component of executives' salaries should be based chiefly on additional rather than alternative, and verifiable, criteria. It is essential that the calculation methods used are transparent and consistent. ERAFP encourages companies to use detailed and verifiable extra-financial criteria such as job creation, workplace accident rate, training and carbon emissions. It is acceptable for assessment of the executive's performance to be partly based on unquantifiable qualitative criteria, such as restructurings, management, deleveraging, disposals, quality and image.

To be able to assess an executive's annual variable remuneration, the shareholders must have access to the following information: performance criteria, target bonus, minimum bonus and maximum bonus.

This variable remuneration should actually vary and the criteria on which it is based be stringent. Accordingly:

- the bonus setting rule should lead to a total lack of bonuses in disappointing or difficult years;
- the criteria comparing the group's performance with that of its competitors should be assessed constructively.

The annual variable remuneration and changes therein must be in line with the company's performance over the financial year. Only an exceptional performance should lead to the award of higher remuneration than the target variable remuneration. This annual variable remuneration must be strictly limited to 100% of the fixed remuneration in the event targets are met (target annual variable). If, exceptionally, the performance targets are exceeded, the annual variable remuneration may exceed this limit but may under no circumstances be more than 150% of the fixed basic salary.

The annual bonus should only account for a marginal share of the total variable remuneration in order to foster the genuine alignment of remuneration with long-term performance.

Companies should preferably make all annual bonus payments subject to a clawback clause, notably to allow for the possibility of bonus adjustments following accounting adjustments or the repayment of bonuses due to accounting malpractice or anti-competitive practices giving rise to ex post fines or penalties, etc.

c. Long-term variable remuneration

ERAFP will seek to ensure that large listed companies no longer

authorise stock option grants. Experience shows that this mechanism does not promote the alignment sought by ERAFP between the remuneration of company officers and its interests as a long-term and socially responsible investor.

So as not to damage social cohesion within the company, ERAFP considers that bonus share distributions should not be confined to company officers but should be extended to all employees. ERAFP recommends that resolutions authorising the allocation to employees of bonus or performance-related shares be separate from executive committee allocation resolutions in order to establish a clear distinction between executive pay and the question of broadly granting company share rights to managers or employees. ERAFP will seek to ensure that companies authorising bonus share grants to company officers notify shareholders as to the maximum amount that can be granted to each company officer as well as the performance conditions that will be applied. Grants of performance shares to company officers must include performance conditions that are transparent, demanding and measured over the long term (at least three years).

Multiple criteria may be chosen, and they must be sufficiently stringent. They may relate to value creation for the shareholder (share price, total shareholder return - TSR) and to the medium and long-term objectives of the strategic plan, and must include one or more criteria relating to social responsibility.

In principle, when multiple criteria are used clawback criteria should be avoided.

Performance conditions (criteria and target thresholds) must be totally transparent. The shareholders must be informed of the performance conditions relating to plans in the process of vesting. They must also be informed of the same information as well as the achievement rate for each criterion for plans vested in recent years.

d. Supplementary retirement schemes

The principle of company-funded "supplementary" retirement schemes, notably defined benefit plans, is not approved. Given their remuneration levels, company officers should be encouraged to save for retirement using their own means and not have this cost imposed on the company and its shareholders.

e. Severance benefits

No severance benefits or any other form of benefit similar to a "golden parachute" should be granted. A severance benefit may be justified if the departure is forced, for example as part of a merger successfully implemented by the company officer, if the total benefit does not exceed a year's salary, except in the case of

significant length of service (without exceeding a total of two years of salary for 24 years of length of service) and if the company officer receiving the benefit does not already receive total remuneration exceeding the ceiling of 100 times the minimum salary in the country concerned (in France, the minimum wage - SMIC) or in the company.

Moreover, a severance benefit should not be paid to a company officer who decides to retire, as said officer has not incurred any loss.

f. Signing bonuses

In ERAFP's view, there is no justification for signing bonuses. They may, however, be accepted if intended to compensate the new recruit for any loss of income resulting from the relinquishment of his or her previous functions, providing they remain at a reasonable level.

■ V. SHAREHOLDER RIGHTS

Fair treatment of shareholders: respect for the "one share, one vote" principle

V.1 VOTING RIGHTS

The principle of voting rights proportionality is inseparable from that of shareholder equality as regards risk, information and potential gains on liquidation. Double voting rights often benefit influential shareholders looking to obtain or enhance their controlling interest at a lower cost and at the expense of minority shareholders. In order to respect the principle of equitable treatment of shareholders to the fullest extent, ERAFP recommends limiting the use of double voting rights as much as possible. As mentioned above, ERAFP believes that other mechanisms make it possible to promote long-term share ownership, notably the use of loyalty dividends or loyalty shares for shareholders who hold their shares over several years.

V.2 UNRESTRICTED ACCESS TO CAPITAL

As a rule, ERAFP does not favour anti-takeover mechanisms or any instrument that protects only company officers and therefore threatens the interests of shareholders and their freedom to choose. In the event of a hostile takeover bid, the convening of a shareholders' meeting should enable shareholders to vote on any protective measures on a case-by-case basis.

The issuance of preferred shares or non-voting shares is also not desirable, since multiple share classes do not contribute to the share transparency and liquidity expected by the public. In addition, the diligent exercise of voting rights is the only way to ensure the creation of direct or indirect counterweights and the implementation of standards for best governance and protection for savers.

V.3 RELOCATION OF REGISTERED OFFICE

Any request to relocate the registered office should give rise to a comparative analysis of the rights of shareholders or governance practices and take into account the issue of "legal and tax havens".

ERAFP will also pay close attention to changes of status by portfolio companies, and in particular to any proposed change of status to that of a European company. European company status may better reflect the European or international nature of the company's activities and brands. However, any proposed change should be analysed as to whether it foreshadows a transfer of the registered office with a view to aggressive tax optimisation.

■ VI. EXTERNAL RESOLUTIONS, IN PARTICULAR OF AN ENVIRONMENTAL OR SOCIAL NATURE

Transparency as regards and anticipation and restriction of the environmental and social impact of the company's activity

As a long-term investor, ERAFP believes that having clear information on a company's environmental and social impacts and the policies it implements to limit them makes it easier to assess the risks and opportunities associated with its investment. Consequently, it will support any resolution presented by a shareholder or group of shareholders provided that it is sufficiently detailed, justified and in line with the principles described in its SRI Charter and this document.

VOTING POLICY: IMPLEMENTATION DOCUMENT

■ I. APPROVAL OF FINANCIAL STATEMENTS AND MANAGEMENT

1 APPROVAL OF FINANCIAL STATEMENTS

A vote against the resolution will be recommended if any of the following conditions apply:

- a) The preparatory documents for the shareholders' meeting are not available online within the legally prescribed period (at least 21 days prior to the shareholders' meeting).
- b) The statutory auditors have added a comment deemed significant as regards the financial statements, management report or internal control that would call into question the accuracy of the financial statements.
- c) The company is part of the financial sector²³ and its financial statements do not include individual financial reporting²⁴ for each country in which the company or its subsidiaries is/are present.
- d) The company has consolidated turnover in excess of €750 million and it does not provide separate financial information²⁵ in its financial statements for each country in which it or its subsidiaries have operations (it is recommended to vote against approval of the consolidated financial statements if said approval takes the form of two resolutions - one concerning the company financial statements and the other the consolidated financial statements).
- e) The company operates in the extractive sector and has not published in a separate annual report payments of more than €100,000 made to governments in countries in which they operate, with a breakdown of payments per country and per project.
- f) The company has implemented an aggressive tax optimisation policy.
- g) The company does not publish sufficiently detailed and credible extra-financial reporting to enable the satisfactory estimation of its environmental and social impacts.
- h) The company is French and is not in a position to comply with the European Directive of 22 October 2014 on the publication of non-financial information and its implementing decree of 9 August 2017²⁶.

²³ i.e., in the financial sector corresponding to the level 1 "40" code in the GICS classification, the two banks and diversified financials "industry groups" whose level 2 codes are 4010 and 4020 - Source: GICS structure & sub-industry definitions

²⁴ See paragraph I.1 of Voting principles

²⁵ See paragraph I.1 of Voting principles

²⁶ <https://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000035401863&dateTexte=&categorieLien=id>

2 DISCHARGE OF DUTIES

A vote against the resolution will be recommended if the discharge of duties is covered in a special resolution and if the applicable legal framework prevents the initiation of a liability suit against the company officers by the investors who have previously voted in favour of it.

A vote against the resolution will be recommended if the company has a history of poor governance practices or has been the subject of controversy that calls into question the responsible nature of the directors or members of the supervisory board.

3 REGULATED AGREEMENTS

A vote against the resolution will be recommended if any of the following conditions apply:

- a) One of the agreements appears to be insufficiently documented to enable shareholders to control its conditions and to satisfy the requirements of article R.225-31 of the French Commercial Code.²⁷
- b) One of the agreements does not appear to be in line with the interests of all shareholders, appears to have poor or limited strategic justification or does not appear to have been concluded under equitable conditions.
- c) One of the agreements corresponds to a related party agreement (severance or retirement benefit) whose conditions are inconsistent with the principles defined in section 4 of this document.

4 APPOINTMENT AND RENEWAL OF PRINCIPAL AND ALTERNATE STATUTORY AUDITORS

A vote against the resolution will be recommended if any of the following conditions apply:

- a) The principal statutory auditor or his firm is presumed to have been a party to clear breaches of shareholder interests or failed to exercise due diligence (for example a special report of the auditors was late, insufficiently detailed or incomplete).
- b) The appointee replaces a statutory auditor who would have had to issue reservations or comments on the financial statements, without a relevant justification by the company.
- c) The block appointment of two statutory auditors in a single resolution.
- d) The principal statutory auditors' fees are not disclosed.

²⁷ <https://www.legifrance.gouv.fr/affichCodeArticle.do?idArticle=LEGIARTI000030680168&cidTexte=LEGITEXT000005634379&dateTexte=20151016>

- e) The company is French and the auditing firm has certified the company's financial statements for at least 18 years (three terms).
- f) The auditing firm has certified the company's financial statements (outside France) for at least 15 years.
- g) During the previous year, the fees for consulting or ancillary audit work (due diligence, etc.) totalled more than 50% of the fees received for the certification of the financial statements, without any special justification.
- h) On average over the past three years, the fees for consulting or ancillary audit work (due diligence, etc.) totalled more than 25% of the fees received as part of audits to certify the financial statements, without any special justification.
- i) The alternate statutory auditor is affiliated with one of the principal statutory auditors.

■ II. BOARD OF DIRECTORS OR SUPERVISORY BOARD

1 APPOINTMENT OF A DIRECTOR OR MEMBER OF THE SUPERVISORY BOARD

A vote against the resolution will be recommended if any of the following conditions apply:

- a) The nominee is subject to a potential conflict of interest as defined in the voting principles ("nominee not free of conflicts of interest") when less than half of the board members are not considered free of conflicts of interest (or one-third of the members in the case of controlled companies).
- b) The proposed board term period exceeds five years.
- c) The resolution applies to several nominees (block election), whereas the election list method is not provided for by law²⁸.
- d) The nominee simultaneously holds more than three board positions in listed companies, large corporations or organisations.
- e) The nominee is a company officer in another company and also simultaneously holds more than one board position outside of his group (in another listed company or large corporation or organisation)²⁹.

²⁸ For Italian companies in particular, in order to increase the number of directors on the board that do not represent the majority shareholder, ERAFP may vote in favour of the/one of the list(s) presented by one or more minority shareholders

²⁹ In other words, in this case we recommend voting in favour of the nominee in the company in which he/she is a company officer

- f) The nominee is a man and, in the event of his appointment, the proportion of women on the board at the end of the 2019 meeting would be less than 40% or significantly lower than in 2017.
- g) A nominee to the position of lead independent director is not free from conflicts of interest.

2 RENEWAL OF TERM FOR A DIRECTOR OR SUPERVISORY BOARD MEMBER

A vote against the resolution will be recommended if any of the following conditions apply:

- a) One of the criteria defined in section II.1 above is not followed.
- b) The nominee is absent without a satisfactory explanation at 25% or more of the board meetings.

3 ELECTION OR RE-ELECTION OF A DIRECTOR AND COMPANY OFFICER

A vote against the resolution will be recommended if any of the following conditions apply:

- a) One of the criteria defined in sections II.1 or II.2 above is not met.
- b) The board has more than two people who are simultaneously directors and company officers and the proportion of directors who are free of potential conflicts of interest is less than 50%.

4 ELECTION OR RE-ELECTION OF A DIRECTOR AND CHIEF EXECUTIVE OFFICER

A vote against the resolution will be recommended if any of the following conditions apply:

- a) One of the criteria defined in sections II.1 or II.2 above is not met, with the exception of the criterion related to board independence.
- b) The nominee simultaneously holds the positions of Chairman of the Board and Chief Executive Officer. A case-by-case analysis will be carried out. If the combination of functions seems justified in the context of the company and a satisfactory level of checks and balances is in place, a favourable vote may be envisaged, exceptionally and temporarily.

The company's context must therefore be taken into account in the analysis. The following, non-exhaustive factors should be taken into account in particular: any past combination of functions (founding CEO, past combination of functions, etc.), the transitional situation in terms of corporate governance (major change in the composition of the shareholder structure, management or governing bodies in general), the composition of the shareholder structure (several

large shareholders or diluted shareholders) and its relationship with the CEO or the company's economic situation.

Special attention must be paid to the existence of a succession plan if the Chairman and Chief Executive Officer is elderly.

The required checks and balances include (but are not limited to):

- A Board of Directors composed of a majority of independent directors or, in the case of controlled companies, at least one third
- The existence of a lead independent director, tasked with a special ongoing duty to communicate with shareholders on corporate governance matters and having the power under the articles of association to require the Chairman to convene a Board of Directors' meeting on a specific agenda
- The possibility of holding meetings attended by directors other than members of general management, at least once a year
- The existence of one or more Deputy Chief Executive Officers

5 ELECTION OR RE-ELECTION OF A CHAIRMAN OF THE BOARD NOMINEE

A vote against the resolution will be recommended if any of the following conditions apply:

- a) One of the criteria defined in sections II.1 or II.2 above is not met.
- b) The nominee simultaneously holds the positions of Chairman of the Board and Chief Executive Officer. A case-by-case analysis will be carried out. If the combination of functions seems justified in the company's context and a satisfactory level of checks and balances is in place, a favourable vote may be envisaged, exceptionally and temporarily.

As mentioned in section 4) b above, the context and checks and balances must be analysed.

- c) The nominee is the former top company officer (Chief Executive Officer, Chairman and Chief Executive Officer or Chairman of the Executive Board), unless the election occurs during the first-time separation of functions of Chairman of the Board and Chief Executive Officer and for a board term period that does not exceed four years. After this transition period, the renewal of the board term for the Chairman and former company officer will be rejected.
- d) The nominee is the non-executive Chairman of the Board of another listed company.

6 RE-ELECTION OF THE CHAIRMAN OF THE REMUNERATION COMMITTEE

A vote against the appointment will be recommended if the following conditions apply:

- a) One of the criteria defined in sections II.1 or II.2 above is not met.
- b) The remuneration committee has not responded adequately to a shareholders' vote against³⁰ the proposed remuneration of an executive³¹.

7 REMUNERATION OF BOARD MEMBERS

A vote against the resolution will be recommended if any of the following conditions apply:

- a) The proportion of remuneration in the form of board attendance fees indexed to attendance is less than 30% of board members' overall remuneration.
- b) The average individual remuneration proposed or the overall cost of the oversight by the board, including the remuneration of the non-executive Chairman, significantly exceeds (by more than 150%) the amount observed at other companies of similar market capitalisation.
- c) The remuneration budget includes a significant increase (more than 5% per year) without due justification.

8 REMUNERATION OF THE NON-EXECUTIVE CHAIRMAN

ERAFP recommends a vote against the resolution if the following condition applies:

- a) The remuneration significantly exceeds, without appropriate justification such as specific prerogatives, that of the chairmen of rival companies of equivalent size.

³⁰ In this case a vote is taken as «against» if there are fewer than 80% votes in favour of the proposal.

³¹ If the re-appointment of the Chairman of the Remuneration Committee is not on the agenda of the shareholders' meeting, a recommendation to vote against the re-appointment of any members of the Remuneration Committee that are up for re-appointment.

■ III. PROFIT DISTRIBUTION, MANAGEMENT OF SHAREHOLDERS' EQUITY AND EQUITY TRANSACTIONS

1 PROFIT DISTRIBUTION

A vote against the resolution will be recommended if any of the following conditions apply:

a) The dividend distribution rate is abnormally high compared with the business sector's and has increased constantly for at least three years whereas the employee' remuneration at constant scope over the same period has decreased³².

The shareholders' remuneration is measured using the dividend per share.

Employees' remuneration should be taken as total personnel costs standardised for the number of employees in the group.

b) The dividend distribution rate is abnormally high compared with the business sector's whereas over the foregoing financial year the company has announced or carried out quantitatively³³ or qualitatively significant restructurings leading to job cuts or site closures.

c) The dividend distribution rates is abnormally high in comparison to other companies in the sector and is not justified by a catch-up objective with respect to previous financial years.

d) There are questions marks over the company's investment capacity.

e) The company has an abnormally high level of structural debt in relation to other companies in the sector.

Moreover, in the case of a company distributing a dividend in respect of a year in which a loss was recorded at consolidated level, a case by case analysis will be performed taking into account the company's environment and the business sector. Depending on the conclusions of the analysis, a vote against the resolution may be envisaged.

2 TREASURY SHARE REPURCHASE TRANSACTIONS

A vote against the resolution will be recommended if any of the following conditions applies:

a) The resolution authorises *a priori* a share repurchase transaction during the public offering period (except in the case of resolutions strictly limiting transactions during offering periods to those intended to satisfy commitments to deliver shares or related to strategic transactions in progress and announced prior to the initiation of the aforementioned public offering).

b) The company's investment capacity is under question or the company has an abnormally high level for structural debt compared with other companies in the sector.

3 CAPITAL REDUCTION

A vote against the resolution will be recommended if the following condition applies:

a) The company's investment capacity is under question or the company has an abnormally high level of structural debt compared with other companies in the sector.

4 CAPITAL INCREASE AUTHORISATIONS

A vote against the authorisation will be recommended if any of the following conditions apply:

a) The request, proposed with the maintenance of preferential subscription rights, exceeds 50% of the equity and is not justified by a specific project.

b) The request, proposed with the cancellation of preferential subscription rights but with a guaranteed priority period, exceeds 20% of the equity and is not justified by a specific project.

c) The request, proposed with the cancellation of preferential subscription rights and with a nonguaranteed priority period, exceeds 10% of the equity and is not justified by a specific project.

d) The request corresponds to a greenshoe option³⁴ with cancellation of preferential subscription rights.

e) In principle, the resolution authorises a capital increase during a public offering (except in the event of a capital increase by incorporation of reserves, which cannot be considered as a genuine anti-takeover measure, or if it is shown to protect the interests of the company and its employees).

32_ In practice, data is analysed over periods of three, four and five years in order to limit any impact of atypical data on one of the reference years.

33_ For a large listed company, any restructuring affecting at least 2,000 or 5% of its employees can be considered significant.

34_ During a capital increase, the company gives the lead bank an option to allocate more shares than planned. In the event of strong demand, the bank can exercise the option and allocate additional shares in order to satisfy investors or, conversely, support the share price by not exercising the option

5 SPECIAL STRATEGIC TRANSACTIONS (RESERVED SHARE ISSUES, CONTRIBUTIONS, MERGERS, OFFERINGS, SPLITS, ASSET DISPOSALS)

The multi-criteria approach will be based on:

- a) the long-term strategic interest of the transaction.
- b) balanced financial terms (value of assets and liabilities created or transferred maintained relative to market conditions).
- c) a positive impact on governance, shareholder democracy, shareholder rights, stakeholders or the free float.
- d) positive environmental and social impacts.

■ IV. EXECUTIVE REMUNERATION

Depending on the regulations and market code recommendations in force and the practices specific to each country, the shareholders' general meeting is required to vote separately on certain components of executive remuneration, or more generally on a report describing the company's executive pay policy.

The recommendations below are therefore applicable to resolutions that deal directly with the question in hand or to ones that, more generally, present the executive pay policy in place.

ERAFP will vote systematically against resolutions concerning the overall executive pay policy in the following cases: 1, 2, 3, 4, 5.

1 TRANSPARENCY OF THE REMUNERATION POLICY AND THE QUALITY OF INFORMATION

ERAFP will recommend voting against the resolution if the information disclosed in the remuneration policy is not sufficiently transparent with regard to local standards and recommendations for good practice.

2 AMOUNT OF REMUNERATION

ERAFP will recommend voting against the resolution if both of the conditions below are met or, if only one of the references is available, if the other condition is met:

- a) the amount of total annual remuneration (salary, annual and multi-year variable remuneration, benefits, options, bonus shares and top-up pension plan contributions) is 100 times more than the minimum wage in force in the company's country of incorporation.
- b) the total annual remuneration (salary, benefits, options, bonus shares and top-up pension plan contributions) is 50 times more than the company's median salary.

3 SHORT-TERM VARIABLE COMPONENT (BONUS)

ERAFP recommends a vote against the resolution if any of the following conditions are met:

- a) The company does not provide sufficiently detailed and clear information about its performance criteria, their weightings, the allocation scales and thresholds and the level of target-achievement by the manager in question.
- b) The performance criteria do not include extra-financial criteria.
- c) The variable short-term component is higher than the long-term variable component.
- d) The variable short-term component is or could be more than 100%³⁵ of the fixed salary if the targets are met.
- e) The total variable remuneration is or could be more than 300% of the fixed remuneration.
- f) The weight of qualitative criteria used in determining the amount of short-term variable remuneration exceeds 25%.

4 VARIABLE LONG-TERM REMUNERATION - ALLOCATION OF OPTIONS THAT INCLUDES COMPANY OFFICERS

A vote against the resolution will be recommended for any allocation of options, regardless of whether it includes company officers.

5 LONG-TERM VARIABLE REMUNERATION - BONUS OR PERFORMANCE SHARES THAT INCLUDE COMPANY OFFICERS AND DIRECTORS

A vote against the resolution will be recommended if any of the following conditions apply:

- a) The resolution or report of the Board of Directors to the shareholders' meeting does not guarantee that the issue will be subject to mandatory performance conditions.
- b) The performance criteria are not factual, verifiable, or quantifiable or are not deemed adequate (link with performance).
- c) The performance criteria include too many qualitative criteria that cannot be verified independently by the shareholder.³⁶
- d) The performance criteria practiced by the company promote a short-term approach by using a measurement period of less than three years.

³⁵ or 150% of the basic fixed remuneration if, exceptionally, the performance targets are exceeded

³⁶ The weight of the qualitative criteria used to determine the variable portion over the long term exceeds 25%

- e) The company does not provide sufficient and clear information relating to the performance criteria, their weighting, the scales and allocation ceilings and the level of achievement of targets by the executive.
- f) None of the performance criteria make it possible to evaluate the social and/or environmental aspects of the company's performance.
- g) The request(s) for bonus or performance share grants exceed(s) 0.50% of the equity.
- h) The potential dilution indicated by the total number of outstanding options or rights to performance or bonus shares exceeds 10% of the equity.
- i) The maximum percentage that may be granted to the company officer is not disclosed.
- j) More than 0.03% of the equity could be granted on average to the company officer of a CAC 40 company (except in the case where particularly demanding performance conditions are taken into account).
- k) The total variable remuneration exceeds 300% of fixed remuneration.
- l) There is no bonus share plan in place for the company's employees.

6 SUPPLEMENTARY RETIREMENT SCHEMES

A vote against the resolution will be recommended, except in the case of defined contribution schemes where the contributions are evenly balanced between the beneficiary and the company.

7 SEVERANCE BENEFITS

A vote against the resolution will be recommended if any of the following conditions apply:

- a) The benefit, barring a non-compete clause, can be paid for a reason other than a forced departure and related to a change in control.
- b) The total remuneration of the interested party (salary, benefits, options and performance shares, annual pension scheme contribution) exceeds the ceiling of the maximum socially acceptable remuneration of 100 times the minimum salary in the country concerned (in France, the minimum wage - SMIC) or 50 times the median remuneration in the company.
- c) The benefit may exceed the amount of one year's salary, to which is added one month's salary per year of service over and above

12 years with the company.

- d) The benefit may exceed an amount of 24 months' salary.
- e) The performance conditions attached to the right to receive a severance benefit are not sufficiently demanding.
- f) The benefit is a retirement benefit.

8 SIGNING BONUS

ERAFP recommends a vote against the resolution if either of the following conditions is met:

- a) The signing bonus does not correspond to an indemnity intended to compensate the new recruit for remuneration he or she has foregone by leaving his or her previous position.
- b) The signing bonus exceeds the equivalent of 6 months of the new recruit's salary in his or her previous position.

9 GRANT OF BONUS SHARES SOLELY TO EMPLOYEES (COMPANY OFFICERS AND DIRECTORS EXCLUDED)

A vote against the resolution will be recommended if either of the following conditions applies:

- a) The request(s) for bonus/performance shares exceed(s) 0.50% of the equity.
- b) The potential dilution indicated by the total number of outstanding options and rights to performance and bonus shares exceeds 10% of the equity.

10 CAPITAL INCREASES RESERVED FOR EMPLOYEES

A vote against the resolution will be recommended if any of the following conditions apply:

- a) The authorisation involves more than 7% of the equity.
- b) The relative share of the employee equity ownership (outstandings excluding management ownership and new proposed authorisations) may exceed 10% of the equity and the resolution authorises a discount.
- c) The relative share of employee equity ownership, including a proposed new authorisation, may exceed 10% of the equity and the company has not confirmed or indicated the non-participation of management representatives in favour of the employee shareholder vote at the shareholders' meeting.
- d) The relative share of employee equity ownership, including a proposed new authorisation, may exceed 15% of the equity.

■ V. SHAREHOLDER RIGHTS

Amendment to the Articles of Association: a vote against the resolution will be recommended if any of the following conditions apply:

- a) Maintenance or establishment of reserved or protected positions on the Board of Directors.
- b) Elimination or reduction of requirement that board members hold a minimum investment in shares.
- c) Change in the age limit and absence of a sufficiently rigorous framework for the succession planning process.
- d) Introduction of double voting rights, for example in the case where it might lead to significant distortion in the principle of equitable rights among shareholders.
- e) Introduction of a limitation on voting rights.
- f) Creation of preferred shares that do not follow the principle of proportionality between equity investment and control of voting rights ("one share, one vote" principle).
- g) Relocation of the registered office or transfer to another listed market or change of status to a European company if it curtails the rights of shareholders or induces a risk in connection with the company's governance or a risk of non-compliance with ERAFP's SRI guidelines, notably as regards financial transparency and the fight against tax havens.

■ VI. EXTERNAL RESOLUTIONS, IN PARTICULAR OF AN ENVIRONMENTAL OR SOCIAL NATURE

ERAFP recommends a vote against the resolution if either of the following conditions is met:

- a) The resolution is not in line with the principles described in ERAFP's SRI Charter or its guidelines for shareholder engagement.
- b) The information available is not sufficient to assess the resolution's relevance or its consistency with the principles described in ERAFP's SRI Charter or its guidelines for shareholder engagement.

NOTES

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