

INDUSTRY SELF REGULATION AND GUIDANCE

January 2019

Recommendations on Corporate Governance

« Vote effectively to manage efficiently »

Corporate governance is a top priority for the French Asset Management Industry.

AFG, the French Asset Management Association is the professional body representing the asset management industry. AFG's members are either boutique entrepreneurial houses or subsidiaries of banking, insurance or money management groups. French asset managers manage in France assets worth € 4,000 billion: € 1,950 billion in the form of investment funds and € 2,050 billion in the form of discretionary mandates and funds domiciled abroad.

Asset managers account for a significant portion of the total stock market capitalisation through the assets they manage. In accordance with their Code of Conduct, they perform their duties completely independently, notably as regards issuers, and act solely in the best interest of their clients.

AFG, well aware that good corporate governance increases the value of investments, realized early on that its Members could play an important part in this area. Its action focuses on the exercise of rights and on the performance of duties conferred to asset management companies in their role as shareholders. In particular, AFG encourages managers to participate actively in the general meetings of listed companies.

« **Vote effectively to manage efficiently** ». AFG Code of Ethics strongly recommends since 1997 that management companies exercise their voting rights. The AFG Corporate Governance Committee, compiles since 1998 a series of Recommendations on corporate governance relating to the general meetings and boards of directors of listed French companies. A monitoring program focused on SBF 120 companies alerts AFG Members on draft resolutions that breach these Recommendations, and it encourages asset managers to take an active part in general meetings.

Founding member of the French Institute of Directors (IFA), AFG is a member of the International Corporate Governance Network (ICGN). More globally, AFG's engagement in corporate governance is part of its broader efforts to promote **long-term savings, enhanced assets quality and responsible investment.**

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INTRODUCTION

Through the amount of assets they manage, asset management companies acting on behalf of their clients represent a significant percentage of market capitalisation. Complying with their professional code of ethics, they exercise their fiduciary responsibilities with full independence in particular vis-à-vis security issuers and for the exclusive benefit of their clients.

In line with the conviction that good corporate governance practices increase the value of their clients' investments, management companies intend to exercise all their rights and duties as shareholders, in particular by actively participating in the general meetings of listed companies.

As early as 1997, the AFG code of ethics recommended that its members exercise their voting rights in the interest of their clients. The impact of these recommendations was amplified through the impetus of both the Financial Security Law (LSF) of 2003 and the General Regulation of the French securities regulator, the *Autorité des Marchés Financiers* (AMF). French law now provides that management companies exercise the voting rights attached to shares held by collective investment funds (CIF) they manage and requires that, should they not exercise such right, they explain their decision. The AMF General Regulation requires managers to publish an up to date "Voting Policy" stating the conditions under which they intend to exercise the voting rights attached to the shares held by the CIFs they manage. These regulations further require management companies to report on the conditions under which they exercised the relevant voting rights.

In 1997, with the aim of providing guidance to AFG members on the exercise of their voting rights, AFG Board of Directors also established a Corporate Governance Committee, chaired until 2018 then by Jean-Pierre Hellebuyck. The Committee was allocated the responsibility of publishing a Code of Corporate Governance. The recommendations resulting from this early work, published in 1998, are updated regularly. The present 2019 edition is thus the seventeenth version of this Code.

These recommendations are intended for companies whose shares are listed for trading either on a regulated French market or on a multilateral trading platform; their principles are also to apply to all investments made abroad by investment managers.

By encouraging a continuous improvement process, AFG invites small and medium sized listed companies to make their best efforts to comply with these recommendations. A proportionate approach may apply to a number of provisions, for instance the provisions on the separation of functions as well as, for companies with a board made up of a limited number of directors, the assignment of board committees (audit, nominations, compensation) functions to individual members free from conflicts of interest well qualified in the relevant field.

These recommendations are intended as a guide for setting shareholder-voting criteria for resolutions, notably for helping managers that are AFG members.

The main objectives of corporate governance which are now well-known meet with a wide consensus in Europe through many corporate governance codes.

As AFG is particularly committed to maintaining a close link between the right to vote and the final shareholder, any reform of securities law that would follow the Capital Market Union (CMU) project should preserve this link as part of future developments. It is essential to ensure the maintenance of shareholders' rights in France.

I – THE GENERAL MEETING

The General Meeting is the prime occasion for shareholders to exercise their rights on the company.

The General Meeting is a sovereign institution. It can decide to dismiss the board of directors or the supervisory board as well as delegate powers to it. As such, it is a decisive factor in a company's corporate governance.

Nevertheless, the General Meeting should not assume decision-making prerogatives or take initiatives that are within the board's jurisdiction, such as for instance proposals for strategic business partnerships or settling conflicts with suppliers or customers.

AFG, that has always taken the view that it is particularly important for management companies to exercise their voting rights, suggests that they elaborate their voting policy and disclose it on their website.

This ethical rule has been reiterated by the law that requires them to exercise the voting rights attached to portfolio shareholdings in the exclusive interest of clients, and, where they do not exercise them, to explain their reasons.

AFG recommends that this voting policy be consistent with a medium/long term perspective and a responsible approach.

Information that an issuer may possess in advance of a shareholders' meeting, notably that provided by the transfer agent (*centralisateur*), should not be used to try to influence or change a vote of the shareholders, particularly those of managers.

A - FACILITATING PARTICIPATION IN GENERAL MEETINGS – PROVIDING APPROPRIATE INFORMATION TO SHAREHOLDERS

1) Timing of general shareholders' meetings

Shareholders should be informed as soon as possible of a company's situation and be in a position to react to this situation, in particular through voting on resolutions. Therefore, general meetings of companies should be held as soon as possible after the publication of the company's financial statements.

2) Place, date, and time of the general meeting

The attendance to General Meetings of as many shareholders as possible contributes to the quality of the debate. Consequently, the participation of shareholders to General Meetings should be encouraged.

AFG recommends such consideration to be taken into account in determining the place, date, and time of companies' general meetings.

When companies can afford it, holding shareholders' meetings in more than one place may be a way of reaching this objective.

AFG is in any case in favour of the use of electronic means of transmission and video-conferencing facilities in order to facilitate participation to shareholders' meetings, in particular for shareholders located outside Paris or abroad. Likewise, it would be helpful if the shareholders' meetings of companies listed in Paris held outside France were web streamed.

3) Shareholder information required before the general meeting

AFG places great importance on the timely delivery to shareholders, as soon as possible after the meeting notice, of all the general meeting-related documents and information. We recommend that these documents be available on issuers' and of the *Autorité des Marchés Financiers* (AMF)'s websites at least 28 days before the general meeting.

It is the responsibility of the company and of the custody account administrator to exercise their best effort to ensure that the voting materials and the necessary information to cast votes are delivered in a timely manner in order to facilitate the exercise by shareholders of their voting rights.

AFG recommends that companies publish on their website practical information concerning participation to general meetings and voting forms.

Equally, AFG recommends that companies ensure that the latest version of their articles of association is always available on their websites.

4) Information available to all

All shareholders, regardless of their nationality, must have access to the same quality of information, particularly when the company is listed on more than one market. In order to facilitate informed participation, the use of other languages commonly used in the financial sphere, in addition to the French language, such as the English language, should be encouraged, for all or part of the documentation prepared for shareholders' meetings.

The annual publication by the company of a registration document (*Document de référence*) including all the information for the attention of shareholders should be encouraged.

5) Explanation of the proposed resolutions

As a general principle, AFG recommends that each resolution be accompanied by sufficiently detailed explanations so that shareholders are able to make an informed decision. In particular, issues at stake should be thoroughly described.

AFG recommends an educational approach to the resolutions' content. It may be achieved for instance through a detailed shareholders' meeting notice.

AFG requests that issuers clearly explain the reason for and consequences of all proposed resolutions, in particular those relating to board appointments and renewal, as well as those relating to the authorisation of financial operations.

Thus, in the case of a vote on candidacies of board members or members of the supervisory board, AFG asks that shareholders be provided with:

- reasons justifying the candidacy, in particular what skills the candidate will use to contribute to the work of the board,
- a detailed curriculum vitae containing information on the candidate's current functions, appointments, and mandates, both in France and abroad (distinguishing between those exercised in group companies and those exercised outside the group), and, when relevant, possible conflicts of interest,
- the criteria used by the company's board of directors and its nominating committee to determine whether the candidate is free of any conflict of interest (indicating in particular any relationship between the company where the candidate is principally employed and the company for which he/she is a candidate).

In the specific case of resolutions on the appointment of directors who represent employee shareholders, their election process (number of voting rounds, number of votes obtained ...) should be clearly disclosed.

AFG is in favour of the direct and indirect participation of employees in the company's capital.

Whenever related-party transactions are not clearly detailed in the auditor's special report, AFG recommends that additional information be provided in the report of the board to the general meeting. In any case, AFG recommends the auditor's special report on related-party transactions to be included in its entirety in the annual report.

6) A detailed strategy

AFG asks that the company's executives present the company's strategy to the board members so that the key issues can be reviewed and approved by the board and described in the report of the board submitted to the general meeting. Such key issues include:

- the company's medium and long term business strategy
- the company's environmental and social policy
- the company's policy of risks identification and management
- the financing strategy: debt, capital increase and dividend distribution policies. Distribution should be adapted to the company's investment needs and to its long term potential growth.

AFG is opposed to the practice of making substantial adjustments to the balance sheet's structure without first informing the shareholders.

Thus, AFG recommends that the company's debt policy (leverage/gearing), including off-balance sheet commitments, as well as the company's dividend distribution policy (payout ratio), for the following three years should be specifically addressed in the report of the board.

7) Board members' participation to general meetings

The shareholders' meeting is the place where the board has to answer shareholders for the way it has fulfilled its functions. The attendance of the directors is therefore very highly recommended.

B - VOTING AT THE GENERAL MEETING

1) Voting forms

The practice of giving to the chairperson proxies providing him/her with a full discretion to vote as a shareholder proxy (*pouvoirs au président*) might facilitate meeting quorum requirements. However, AFG feels that such practice might restrain active shareholder participation.

AFG is in favour of a harmonisation and a standardisation of voting forms so that all the voting procedures (physical presence, postal voting, proxy voting, “*pouvoirs au président*”) are clearly and explicitly presented, in particular when it relates to the implications of these different voting procedures.

AFG recommends that, in case of calls for proxy, proxies disclose their voting intentions to principals before they receive the power to vote.

2) Submitting resolutions and raising questions at the general meeting

AFG recommends that issuers remind their shareholders of their rights: submit resolutions to the general shareholders' meeting and raise oral or written questions. Issuers must explain the conditions under which these rights may be exercised.

It should be reminded that shareholders wishing to submit a resolution can regroup in order to reach the minimum amount of capital required.

AFG welcomes the regulatory change that allows answers to written questions to be published on the company's website. However, this should not restrain discussions on essential items during the general meeting.

3) Non-voting preference shares and shares without voting rights attached

In compliance with the law, AFG calls for the rights of shareholders holding non-voting preference shares to be respected (without prejudice to the right to participate to general meetings), based on the amount of capital they own in the company. AFG is generally not in favour of issuing shares without voting rights.

4) Double and/or multiple voting rights, preferred shares and other classes of shares, loyalty dividends

As it supports the principle "one share, one vote", AFG takes the view that the practice of granting double and/or multiple voting rights may allow the control of a company by minority shareholders. Therefore, this practice might lead to abuses arising from the dichotomy between shareholder power and financial risk.

AFG therefore recommends that this practice should be abandoned and invites relevant listed companies to propose to their shareholders a statutory amendment to restore the principle “one share one vote”.

AFG is also against limitations on voting rights, preferred shares and other special share categories.

To promote a long-term holding, AFG is in favour of the use of loyalty dividends. AFG calls for a fair treatment of all shareholders, both bearer and registered.

5) Electronic voting

AFG is in favour of the generalization of a secure and standardised voting at general meetings through the internet and calls for a quick revision of the law.

AFG invites issuers to offer to all their shareholders the possibility of a remote electronic vote (Votaccess) and urges securities actors to contribute to its rapid generalization in order to contribute to facilitate voting and reduce the sending of paper forms.

Electronic voting should make it possible for shareholders to receive confirmation of their vote.

Shareholders' vote should remain confidential regardless of whether shareholders are physically present at the AGM or vote remotely.

6) Voting supervision and streamlining

AFG recommends that issuers make available or send upon request to shareholders detailed information on the procedures for vote counting regarding each resolution submitted.

AFG pays particular importance to the recording of postal and proxy votes cast by all shareholders, particularly by non-resident shareholders.

Companies are responsible for ensuring the proper functioning of the general meeting voting committee (“*bureau de l’assemblée générale*”), as recommended by the French securities regulator (AMF).

AFG recommends that companies pay special attention to resolutions that face significant opposition.

AFG hopes that a systematic confirmation to the investor, for each general meeting within two days of its vote, will be included in the forthcoming regulation.

The report on the vote results should not only specify, if relevant, the number of voting forms rejected by the Chairperson and the corresponding number of votes, the number of votes corresponding to postal voting forms taken into account, and the number of votes cast by shareholders who were physically present or represented at the meeting, but also the number of blank votes (proxies) given to the Chairperson.

C - SPECIAL ATTENTION TO PARTICULAR RESOLUTIONS

1) Securities trading

AFG supports the board neutrality principle during public offer periods.

Regarding resolution related to neutrality principle (financial authorizations...), AFG requires that companies confirm that the conferred authorization cannot be used during public offer periods.

1.1- Protective measures - poison-pill defenses (anti-takeover measures)

In the interest of minority shareholders, AFG is not in favour of anti-takeover measures.

In particular, it is not desirable that a general meeting gives authorisation in advance to make use, during a subsequently launched takeover action, of such measures as share buybacks or share warrants grants as established by the Act of March 31, 2006.

Indeed, AFG considers that shareholders should be given the opportunity to vote on a case-by-case basis with appropriate information on resolutions authorising a share buyback or grant of share warrants as established by the Act of March 31, 2006 at general meetings during takeover periods.

AFG wishes companies to avoid the use of ambiguous language in resolutions. In particular, it is preferable that resolutions addressing share buybacks does not indicate that the buyback may be exercised "at any time." Rather, such resolutions should state explicitly whether share buybacks are permitted during a takeover period.

AFG is in favour of a change in the law so that extraordinary general meetings deciding on the issuance of share warrants as established by the Act of March 31, 2006 are not subject to the quorum and majority voting requirements of ordinary general meetings, but rather to the usual conditions applicable to extraordinary general meetings.

1.2 - Share issuances with or without pre-emptive rights

It is desirable that issuers supply ex ante justifications of resolutions without pre-emptive rights on proposed authorizations for capital increases. It also is necessary to provide the shareholders with ex post information on the amounts of capital used and, when relevant on the amounts remaining.

Share issuances with pre-emptive rights

AFG considers as acceptable authorisations of capital increases with pre-emptive rights, which, if they were cumulated, would not represent more than 50% of the capital, unless a higher percentage may be justified by special circumstances formally disclosed.

Share issuances without pre-emptive rights

- AFG recommends that approvals of capital increases without pre-emptive rights and without a binding priority subscription period, if they were cumulated, do not represent more than 10% of a company's share capital.
- Approvals of capital increases without pre-emptive rights and with a priority subscription period of at least 5 days, if they were cumulated, should not represent more than 20% of a company's share capital, unless a higher percentage is justified by particular circumstances which are formally explained.

AFG is generally not in favour of authorisations of capital increases through private placement except in specific situations duly justified by the issuer.

2) Asset disposals with significant and/or strategic character

AFG recommends asset disposals having a significant and/or strategic character to be submitted to the prior vote of the shareholders.

3) Related Party Transactions

The boards should develop and make public a formal policy explaining its approach to the monitoring and approval of related party transactions. A director in a situation of conflict of interest on a board agenda subject must not take part in the deliberations nor the vote.

The board should follow a formalized process to evaluate the alignment of the transaction with the company's interests and disclose it.

Auditors should be involved in the qualification of the related party transactions, particularly regarding standard transactions concluded under normal conditions. The AFG wishes to see a change in the regulations in this respect.

The board of directors should appoint an independent expert when the conclusion of a related party transaction is likely to have a very significant impact on the balance sheet or the results of the company and / or the group. This independent expertise requested by the board of directors must be mentioned in the special report of the statutory auditors and should be public.

The report of the statutory auditors on related party transactions should contain in particular a complete description of the services provided; the methods for calculating the financial conditions and their adjustment conditions over time.

4) Opposition to bundled resolutions

AFG is opposed to the practice of combining into a single resolution several decisions, even if they are decisions of the same nature, obliging shareholders to approve or reject in a single vote all of these decisions.

AFG is strongly opposed to single resolutions proposing the appointment or renewal of appointment of several board members. AFG recommends that each appointment be submitted to a separate vote at the general meeting.

In order to ensure greater transparency, the most important related-party transactions should be presented in separate shareholder resolutions. Such transparency arrangements should in particular apply to transactions involving executive directors and family holding companies.

II-THE BOARD OF DIRECTORS OR THE SUPERVISORY BOARD

The board is a strategic body; the decisions it makes determine the future of the company and involve the responsibility of its members. Its action must be governed by the principles of transparency, accountability, effectiveness and availability.

With a view to ensure their independence, investment managers and their employees should not serve as a member of the board of directors or the supervisory board of any company whose shares are held in the portfolios they manage.

Directors should naturally act in compliance with ethical principles. They should also ensure the diffusion of ethical principles applicable to executive directors and employees in the company.

A – PRINCIPLES

1) Function of the board

The board is to be motivated by a genuine "*affectio societatis*" and be permeated by the company's culture.

AFG takes the view that, since the board is responsible to all the company's shareholders, the board should therefore act in the interest and on behalf of all the shareholders.

The board's strategy and action should be consistent with a sustainable development of the company. From this perspective, AFG encourages management companies to pay specific attention to social and environmental factors, encompassing all entities included in the company's consolidated accounts.

In the extension of the missions conferred by the law to the board, AFG is in favour that the board supervises the implementation and the regular review of an effective risk management policy, including in particular strategic, financial, operational and non-financial (human, environmental, reputational) risks.

2) Accountability and independence

The board's accountability to all shareholders requires that it exercises an independent judgement and fulfils its duty of supervision in relation to the company management.

Board members are responsible for keeping themselves informed about the rights and duties associated with their position.

The board of directors or supervisory board must ensure that the information provided to shareholders and the public is of a high standard.

The board of directors or the supervisory board must ensure the quality of the information communicated to shareholders and to public. Regarding the annual report / registration document, the board has to make sure in particular that it allows shareholders, who put in risk their capital, to be able to carry out their responsibilities and duties as owners and estimate the company management, its board and its strategy.

3) Separation of functions

AFG is in favour of the general principle of separation of functions, namely executive and control power, through a separation of the function of chairperson of the board from that of the chief executive officer, or through a supervisory and management board's structure. Functions assigned respectively to the chairperson of the board and the chief executive officer should be described in the documents available at general meetings.

A stable and supportive shareholder base is essential for the development of an effective long-term strategy; the chairperson of the board must focus on promoting it.

Companies, which, as an exception, decide not to implement such a separation of functions, should explain their decision to their shareholders. It is recommended that in these companies, where the chairperson also is Chief Executive Officer (*Président directeur général*) a free of conflicts of interests lead director (*Administrateur référent*) should also be appointed. The articles of association, or the board of directors' internal rules and procedures, should provide for this eventuality and include provisions on a specific framework for board convocation.

The role of the referent director (*Administrateur référent*) should be formalized in the articles of association and include several missions, at least the following:

- To monitor and to manage conflicts of interest situations for executive directors and others board members. This would imply taking preventive measures in order to increase directors' awareness of the existence of facts likely to generate conflicts of interest situations. AFG believes that it is preferable to declare potential conflicts before they materialise rather than after they have occurred.
- To set the board agenda with the chairperson, adding if necessary, some additional items,
- To convene exceptionally the board if necessary,

- To ensure compliance with governance rules within the board and the standing committees (work schedule...).
- Account for his/her work at the General meeting.

B-STRENGTHENING THE BOARD'S INDEPENDENCE AND EFFICIENCY

The board composition should ensure a balance between powers and skills.

1) Criteria applicable to board members as free from conflicts of interest

AFG recommends that the boards of the SBF 120 companies include at least:

- 50% of members free from conflicts of interest in non-controlled companies
- 33% of members free from conflicts of interest in controlled companies

For the calculation of the above thresholds, directors who represent employees and directors who represent employee shareholders are not accounted for.

The boards of small and medium sized companies must be composed of at least one-third of members free from conflicts of interest.

To be qualified as being free from conflicts of interest, a director must not be in a situation of a potential conflict of interest. Therefore, he or she must not:

- be a salaried employee or corporate officer of this company or of any company of the same group, nor have been in such a position at any time during the past five years;
- be a salaried employee or corporate officer of a significant shareholder of this company or of any company of the same group;
- be a salaried employee or corporate officer of a significant or frequent commercial, banking, or financial partner of this company or of any company of the same group;
- have been the auditor of the company during the previous five years;
- have been a board member of this company for more than 12 years.

The curriculum vitae of candidates for the board of directors may be taken into account to justify a vote against a person who has not demonstrated good governance records in its previous positions.

2) Standing committees

AFG pays particular importance to the existence of specialised committees emanating from the board of directors. The board and the committees must be free to summon and interview company employees.

The board must provide shareholders with all relevant information about the committees and the frequency of their meetings; it must also report on their activities. Terms of reference concerning the functioning of committees and their attributions must be disclosed.

AFG recommends that terms of reference be drawn up for each committee, describing how they operate as well as their scope of authority.

The committees are mere extensions of the board (which has sole authority to take decisions collectively) and are responsible for preparing its work. However, boards should take care not to set up too many specialised committees, to avoid confusion and to enable the directors to remain focused.

AFG recommends the formation of three separate committees to serve the board: an audit committee, a nominating committee and a compensation committee.

2-1 Audit committee

AFG recommends that at least a majority of the audit committee members be free from conflicts of interest¹.

Company managers (as stipulated by law) and company employees may not be members of the audit committee.

The audit committee is responsible, inter alia, for the following:

- control of accounting and financial information,
- risk analysis (mapping, procedures, etc.) including risks relating to intangible assets (brands, reputation...) and patents,
- oversight of internal control,
- oversight of statutory audits and assessment of the work of external auditors, selection of auditors (shareholders should be informed by the board of the designation procedures), and check of their independence (in particular if they provide others services) and of the good application of the principles of rotation resulting from European texts.

AFG recommends that regular communication be held between the board and staff responsible for internal audit and risk management.

¹ Except in the specific case of small and medium-sized companies (see introduction).

2-2 Nominating committee

The nominating committee must include at least a majority of the board of directors or supervisory board, and at least one third of the committee members must be free from conflicts of interest.

The main responsibility of this committee is to make proposals regarding the search for and appointment of board members and executive directors, contribute to the succession planning and organisation for the main executive directors whether it results from the end of the mandate or a sudden hindrance to perform his duties. The scheme implemented shall be subject to an annual review by the board. The committee organises the integration of new directors into the board. It may also participate in the assessment of the board's performance.

AFG recommends that issuers ensure a regular increase of the proportion of women in their executive committee, in order to facilitate their subsequent representation within boards of directors and to contribute to better human resources management.

2-3 Compensation committee

The compensation committee should design the executive directors' compensation scheme in order to prepare board discussions. To this end he gets from the company managers knowledge of the compensation policy of the executive committee. It also meets the human resources managers in order to be informed about the compensation policy of the group.

The compensation committee analyses a priori and a posteriori the relevance of criteria set up regarding remunerations.

It is necessary that the chairperson of the compensation committee and a majority of its members be free of conflicts of interest. In any case, persons with management responsibilities may not be members of the compensation committee.

3) Directors' fees

Board members should receive directors' fees as compensation for their work. The amount of such fees and any changes thereof must be consistent with the standards and practices prevailing in the country where the company is located, with the business sector of the company, and be proportionate to the company's resources.

The allocation of the directors' fees must take into account the amount of work performed by each board member and his or her attendance record to the board meetings and, if relevant, to the specialized committees. The details of this breakdown and any changes thereof should be included in the annual report.

4) Compensation of the non-executive chairperson

Particular attention should be paid to the compensation of the non-executive chairperson, especially with respect to his/her variable compensation, where applicable. In any case, precise information regarding the financial year just ended and the two previous years should always be presented in the annual report.

The board of directors or the supervisory board validates the compensation of the non-executive chairperson as regard the missions that may have been entrusted to him. It notifies these remunerations to shareholders especially concerning the missions concerned.

The compensation of the non-executive chairperson must not place him in a position of conflicts of interest. AFG does not favour the payment of variable compensation to the non-executive chairperson.

5) Cross-shareholdings and cross exchanges of directorships

As a matter of principle, AFG is not in favour of cross exchanges of directorships, and cross-shareholdings unless they are the result of strategic alliances and part of an official joint business undertaking. Apart in such circumstances, cross exchanges of directorships and cross-shareholdings are in contradiction with the principles of transparency and independent decision-making.

Cross-directors and board members representing cross-shareholdings should not be members of any committee.

6) Diversity of board members

AFG recommends that the composition of the board should be diversified in terms of educational background, nationality, gender, etc., as diversity entails a better functioning.

The diversity of board members is essential in order to ensure that the board of directors operates properly and efficiently and benefits from varied and complementary areas of expertise.

C -ENSURING APPROPRIATE AND TRANSPARENT COMPENSATION

1) The board's role with respect to compensation

AFG highlights the responsibility of the board of directors or supervisory board concerning the elaboration and the decision-making processes relating to compensation and to compliance with ethical principles. It must discuss at least once a year the compensation policy and perform its supervisory function to the greatest extent possible.

The compensation committee plays a fundamental role and therefore must not find itself in a situation of conflict of interest. Therefore, its members cannot include company's managers or managers of any company of the group and its chairperson must be free of conflicts of interest.

2) Appropriate compensation

2-1 Aligned with the company's and shareholders' interests

AFG considers that the interests of the company managers must be consistent with those of the company shareholders. The company's compensation policy should strike a balance accommodating the necessity to motivate employees. This policy must incorporate both financial and non-financial considerations. As a result, it should be consistent with a medium/long term perspective.

AFG reiterates the importance of a transparent and well-managed compensation policy, the absence of which would adversely affect the company's image and reputation. Any excess in this area may be prejudicial to the interests of the shareholders, as well as to those of the company and its managers. The executive directors' compensation must take into account social cohesion and contribute to promote affectio societatis.

It is better to avoid the effects of out-bidding wars that would result from a compensation policy exclusively based on comparisons with other companies.

Both increases and decreases in the compensation of executive directors must be linked to medium-term and long-term trends in the company's intrinsic worth and the relative performance of its share price. They must be consistent with the company's average employee compensation, dividends and earnings.

2-2 Risk-taking

AFG recommends that executive directors and members of the executive committee should personally hold (at risk) a significant amount of company shares and that information on their shareholdings shall be provided to shareholders.

Likewise, it seems sensible that executive directors keep a portion of their exercised stock options as company shares (at risk).

3) Transparency – Compensation policy and Say on Pay

The board of directors or supervisory board, which decides on the compensation of executive directors, is responsible for the publication and the transparency of the company's compensation policy.

It must inform the shareholders of the underlying principles and reasoning that determined this policy, in particular the relationship between compensation, performance, and performance objectives.

AFG calls for full disclosure of the amounts and all forms and methods of calculations of individual, direct, indirect, or deferred compensation of the executive directors of the company or its subsidiaries in France or abroad (including stock options, bonus shares, pension plans – specifying whether these are identical for other group managers or specific to the individual -severance pay, and any other relevant benefits), as well as the total compensation paid to the ten highest-paid persons exercising management responsibilities.

The variable part of the executive directors' remuneration should clearly explain the criteria used, describing how they were applied during the year under review and if the executive directors' personal objectives were met.

AFG calls for disclosure of the weighting of each criterion in the compensation calculation, as well as their year-to-year variation over three years. The variations of the various elements of remuneration must be justified

AFG also calls for the indication "ex post" of the realization rates of the various criteria, by separating clearly quantitative and qualitative elements if necessary.

In the case of special compensation, the amount for each corporate officer should be disclosed. The circumstances and motives leading to such payments should be specified and justified (golden hello...).

AFG recommends that tables summarising executive directors' compensation for the current year provide a comparison with the two previous years.

4) Stock options and bonus shares

AFG is in favour of granting share options and bonus shares provided their allocation is well designed, involves the beneficiaries in the development of the company and allows the forming of a real corporate culture with the indispensable *affectio societatis*.

AFG recommends the cancellation of share options and bonus shares when leaving the company, as well as the absence of any possibility to alter ex-post the initial conditions for granting options or bonus shares.

4.1. Share subscription or purchase options

AFG believes that stock options should be granted without a price discount. The absence of a price discount should be mentioned in the resolution authorising such an attribution.

AFG recommends that the resolution setting the terms for granting stock options also stipulate that:

- the granting of stock options is subject to meeting performance criteria over a long period: at least 3 years, preferably 5 years,
- the options are granted on a regular annual basis in order to avoid market timing risks.

AFG recommends that resolutions on the allocation of stock options to executive directors should be separate from resolutions on the allocation of stock options to employees. Regarding the allocation of options to employees, the resolution should state the minimum number of beneficiaries. Regarding the allocation of options to executive directors, it is good practice for the company to implement an option management scheme under which the interested parties, annually and prior to execution, lay out the programme for stock option exercise.

4.2. Bonus shares

AFG recommends that the company annual report provide shareholders with detailed information on all the performance conditions that led to the allocation of bonus shares over the previous three years.

AFG recommends that resolutions on the allocation of bonus shares to executive directors should be separate from resolutions on the allocation of bonus share to employees.

The allocation of bonus shares should be linked to the achievement of performance criteria over a long period (at least 3 years).

Resolutions to authorise the allocation of bonus shares to employees and/or executive directors must include the explicit performance criteria on which the

allocation of those shares is based so that shareholders may assess any potential dilutive impact. These criteria may be stated in the resolution or in the documents provided to shareholders with a view to the shareholders' meeting.

Resolutions providing for the allocation of bonus shares to all employees shall be reviewed on a case-by-case basis.

4.3. Common provisions for options and bonus shares

The total value of stock option and bonus share plans must not exceed 10% of the company's capital. Where the company provides formal explanations and justifications, or where the company is a small-cap, this limit may be higher.

AFG asks that the company's annual report discloses, for both past and future plans, the total number of stock-option and bonus-share beneficiaries, split between executive directors and employees.

AFG recommend that, where there is a provision for release in the case of a change in company control, stock option and share performance plans should explicitly provide prorata over time, specific implementation procedures for performance or release conditions.

4.4. Delegation of shares management by executive directors

In order to avoid problems arising from dealing for their own account in the company's shares, executive directors must fully delegate the management of their shareholdings. If such arrangement is not possible, they must implement an equivalent arrangement ensuring the existence of relevant compliance rules.

4.5. Plans with similar effects

AFG considers that the principles mentioned above also apply to plans with similar effects, such as phantom shares.

5) Severance Pay

"No rewards for failure." There cannot be concomitantly an attractive compensation incorporating a risk premium and a large severance payment, should the risk actually occur.

Without prejudice to legal requirements regarding performance, AFG is of the view that any kind of It is desirable that the payment of a non-competition allowance should be limited to the case where the person concerned assumes functions outside the group.to a corporate officer should be proportionate to the individual's length of service and level of compensation, and to the company's intrinsic value during the individual's time of service.

In any case, AFG recommends that the aggregate compensation payable to a corporate officer upon his or her departure, including severance pay, non-compete

payments, etc., should not exceed twice that manager's fixed and variable annual compensation (excluding stock options and other types of compensation). If the executive director's service was under two years, the amount of severance pay must be proportional to his or her length of service.

As with employees, a corporate officer who departs of his or her own accord should not receive any severance pay.

The payment of a severance pay should be limited to the case where the person concerned assumes functions outside the group.

Contractual benefits or severance pay of any kind must be disclosed in the summary compensation table included in the company annual report.

6) Supplementary retirement benefits

Resolutions related to supplementary retirement benefit schemes and other forms of pension plans and schemes should state the following principles:

- Seniority (at least two years with the company),
- Strict progressiveness: the increase in potential rights shall only account for a percentage limited to 3% of the beneficiary's remuneration,
- Employment with the company at the time of retirement,
- A ceiling of 45 % of the fixed and variable annual remuneration owed for reference period,
- Setting a reference period of several years.

It is preferable that the beneficiaries of supplementary retirement benefits include at least all the executives (whether they are executive directors or not).

D -BOARD ORGANISATION AND RESPONSIBILITY

1) Ethics - Board of directors' internal rules and procedures

AFG is in favour of developing the practice of the board of directors' internal rules and procedures. This document should be available to shareholders in whole or in part.

This document must state in how the board is organised, notably in relation to the prevention and management of conflicts of interest as well as give details of the ethical rules its members intend to use as their guidelines.

The board of directors' internal rules and procedures may also require the board's prior agreement before any significant operation or any initiative that diverges from the stated business strategy, such as acquisitions or internal restructuring; it may furthermore indicate general instances in which the board's prior agreement is required.

The board has to manage the possible conflicts of interests between its members.

In case of any potential conflict of interests on an item on the board agenda, the director facing a situation of conflict of interests must advise the board and must not take part to the deliberations, nor the vote.

2) Limitation on number of directorships

Directors and supervisory board members must be in a position to dedicate themselves fully to their responsibilities. AFG recommends that outside board memberships for executive directors be limited to two. The recommended limit for non-executive directorships is five.

Board membership here means the position of member of a board of director, member of a supervisory board or permanent representative in a listed company, in France or abroad, whatever would be the legal form of the company.

Chairmanship of an audit committee, as well as non-executive chairmanship of a board, will be accounted for as an additional director mandate.

This recommendation should equally apply to foreign companies' board memberships.

We recommend directors to inform the board before accepting any other mandate. In the same case, executive directors should ask for the approval of the board of directors beforehand.

3) Assessment and transparency of board work

AFG recommends that the board regularly examine the roles and responsibilities of its members.

AFG recommends that the board conduct a formal annual assessment of its own performance either by self-rating or by external rating. The board must examine its membership, organisation and functioning, including issues such as the relevance of agenda items, time spent per item, quality of documents provided, efficiency of committees. It informs shareholders of these assessments and of any measures taken in response to its findings.

AFG recommends that, in its report, the chairperson of the board informs shareholders of the number of board meetings, directors' attendance records, board organisation and operation, any training received, and, in addition to the detailed curriculum vitae of current board members and those submitted for shareholder approval, the list of their responsibilities and directorships and any ties they may have with the company they will represent or other professional activities.

This report must also include detailed information on the work and conclusions of the various committees.

4) Board meetings

AFG recommends board meetings to be held on a regular enough basis in order to ensure an appropriate board level of information and an effective work of the board.

Regular board meetings outside the presence of the executive directors should facilitate exchanges.

The number of board and committee meetings, the attendance record of directors and the type of meeting (e.g. physical meeting, conference call...), should be stated in the annual report (such an information is also desirable on committees' meetings).

Participation of censors to the board should be exceptional; the company should provide, before the general meeting, formal explanations and justifications of their participation to shareholders.

5) Resources at board members' disposal

The chairperson must supply each board member with information, in whatever format, that may be useful to the performance of his or her duties. Items to be provided to members of the board of directors or supervisory board include any research ordered by management (market research, strategic analysis, compensation studies, etc.) or, in any case, their main findings.

The risk mapping (including not only financial risks but also all the risks identified by the company) must be transmitted to the board members.

These documents must be published sufficiently in advance of board meetings for members to gather all the information they need to make fully informed decisions.

Board members must be provided upon request with any additional qualitative and quantitative information on the company. They must also be able to interview any individual with information they deem useful for their work.

The company chief ethics officer should, at least once a year, report to the board on its activity, the problems encountered within the group and the tools dedicated to ethics.

In general, persons responsible for internal control, risk management and ethics should be given the opportunity to present on a regular basis all points of concern they identified.

6) Board member training

It is essential that any new director receives on the chairperson initiative, a training that allows him or her to learn more on the company, he or she will run and on its products (meetings with the executives of the company, visit of sites, communication of the organization chart...).

The recently appointed director should also be encouraged to get training in order to improve his expertise on the different aspects of the director's duties.

Similarly, the company must encourage and facilitate the regular training of board members during their mandate.

7) Board member's share ownership

Without prejudice to national law, each board member should hold a minimum, but more than symbolic, amount of shares in the company's capital.

8) Term of office – renewing board membership

The term of office for members of the board of directors or supervisory board should not exceed four years.

AFG is favourable to a regular partial renewal of memberships for boards of directors and supervisory boards.

This English language translation of the Recommendations on Corporate Governance has been prepared for information purposes only.

Only the French version can satisfy legal requirements.

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