

## **CORPORATE GOVERNANCE**

### **PRINCIPLES OF VOTING RIGHTS**

Allianz Global Investors France considers the exercise of voting rights as a fully-fledged act of management that must be performed in the best interests of its customers.

We consider the exercise of these voting rights at the level of euro area countries. The internal organisation adopted by Allianz Global Investors France and our custodian seeks to optimise this activity that constitutes an integral part of our system of corporate governance

The objective of our voting rights policy is to promote and develop corporate governance procedures within European listed companies. For this reason, Allianz Global Investors France considers application of the "**one share, one vote**" principle at general shareholders' meetings of these companies essential.

As part of Allianz Global Investors France's commitment to the Principles for Responsible Investment (PRI), we include environmental, social and governance (ESG) criteria in our voting policy. This inclusion is in line with our fundamental medium- and long-term management, which is the best way to minimise risks and maximise investment opportunities overall.

As such, as part of the application of our one share, one vote policy at general shareholders' meetings, we take into account the company's overall performance, defined as financial and economic, but also its social and environmental performance. The assessment of this performance may influence our vote across all items on the agenda of shareholders' meetings, for example, the appointment of directors, authorisations for capital increases, or share buyback or compensation policies.

To achieve this objective, we have adopted the following principles:

## **1 –The organisation of general meetings by listed companies**

- No later than four months after the end of their fiscal year. This must be accompanied by publication of company annual results as early as possible.
- Sending the notice of meetings and resolutions one month before the general meeting date.
- Improve access to information necessary to fully assume our responsibilities as shareholders, particularly in non-French companies:
  - preparation of two reports (simplified and detailed versions) in at least two commonly used languages;
  - a guide to reading financial statements and clear explanations of proposed resolutions(e.g. detailed presentation of regulated agreements);
  - publication of documents on the Internet;
  - mandatory presence of directors at general meetings;
  - video link for shareholders not physically present;
  - adoption of electronic voting;
  - standardisation of voting forms.
- We note with satisfaction the adoption in 2007 of a record date of D-3 that replaces the practice involving measures that temporarily restricted the transferability of securities.

## 2 – Principles of Allianz Global Investors France concerning corporate governance of listed companies

### 2.1 - We consider the following measures for listed companies to be positive:

#### A/ Code

- Implementation of an internal code of corporate governance.
- Publication in the annual report of a statement on corporate governance and a report on sustainable development actions from a social, environmental and economic standpoint.

#### B/ Board membership

- Separating the functions of executive and non-executive officers (e.g. separation of the functions of chairman and chief executive officer in cases where the company has a Supervisory Board and an Executive Board).  
In the case of a non separation of functions, the company should explain why it chooses this mode of governance. Moreover, if the company appoints a Lead Independent Director, we ask that the reasons and the functions of this appointment be clearly mentioned
- Limiting directors' terms to four years. No appointment should be renewed more than three times (this restriction does not apply to legal entities and natural persons holding more than 10% of the capital).
- Having between 3 and 18 directors of which at least one third are considered as independent.<sup>1</sup>
- A shareholder holding at least 10% of the share capital must be able to be represented on the company's Board of Directors.
- Directors less than 70 years of age must account for at least two thirds of the Board.
- Directors must hold shares of the company that have not been lent to them.<sup>2</sup>
- Employee shareholders must be represented on the Board by at least one Director. It is desirable when resolutions relative to these director's appointments are submitted to general assembly's approval, that companies' shareholders benefit from the utmost transparency regarding the appointment process.  
Generally, we do not want that employee ownership exceeds 15% stake in the company.
- The Board of Directors must have a diversified representation (education, experience, nationality, men/women).

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<sup>1</sup> The independent director is defined as a person with no direct or indirect relations with the company or companies of the Group that may be considered able to participate in the work of the Board with complete objectivity. The independent director must not be or have been an employee, chairman, Chief Executive Officer of the company or another company of the Group, nor have had relations in any manner whatsoever with such a shareholder. Finally, he or she must not have any relations with either a material or regular commercial or financial partner of the company or its Group.

<sup>2</sup> The term effectively signifies the equivalent of two years of attendance fees.

- Women must represent progressively at least 40% of boards, within 5 years. We will take into account in our vote companies' willingness to reach this level for the appointment or renewal of directors.
- Curriculum vitae indicating the functions and mandates of the candidate for the post of director, both in France and abroad, must be attached to the report. We also want the company to be transparent about the appointment of Directors (eg: what their background and expertise will bring to the Board of Directors).
- Attendance fees must not represent more than twice the amount of attendance fees customarily allocated by French listed companies.<sup>3</sup>

### C/ Procedures

- Special committees exist with between three and five members consisting in majority of non-executive directors and at least one third independent directors. Such committees constitute a critical component of corporate governance and contribute to the proper functioning of the Board of Directors:
  - **Audit Committee** – assures notably the quality of the work of the Statutory Auditors, their independence and impartiality.
  - **Compensation Committee** – determines the procedures of compensation and stock option grants to company executives. It is made up of a majority of independent directors and must not include any executive officers. The chairman of this Committee must be independent.
  - **Selection Committee** – conducts searches and appoints members of the Board of Directors and executive officers.
- The non-executive and/or independent directors can meet in the absence of executive officers at least once a year.
- **Corporate Governance Committee:**
  - To monitor the expertise and diligence of directors in performing their functions within the company.
  - To ensure compliance of corporate governance procedures applied in relation to those set forth in the internal code.

### D/ Auditors:

- Statutory Auditors should not be partners with the Alternate Auditors.
- Their terms do not exceed 12 years.

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<sup>3</sup> This rule is considered in relation to the minimum commitment of members of the Board imposed by the company's articles of association.

- Fees paid for consulting services do not exceed 50% of those paid for audit services where such a restriction is not imposed by law. We could, if needed, appreciate this rate on a three years basis.

Non-compliance with one or more of these principles may result in an abstention or negative vote on our part for certain resolutions. These decisions will be accompanied by explanations provided to the company.

## 2.2 - We abstain or vote against certain resolutions submitted to the General Meeting of the shareholders:

- Implementation by the company of anti-takeover bid measures:
  - Maintaining authorisations for rights issues when takeover bids or tender offers are in progress.
  - Maintaining share repurchase authorisations while public offerings are in progress. We would vote in favour of a proposition by the company to suspend this authorisation during public offerings. In addition, we may vote for this resolution when buybacks are undertaken under current share repurchase authorisations before the launch of the public offering to acquire securities for share grants or sales to employees or corporate officers.
  - Issuing stock warrants during public offerings pursuant to the Breton Act (Economic Confidence and Modernisation Act, 2005-842 of 26 July 2005). We consider that a general meeting held during offering periods must enable shareholders possessing the necessary information to vote on this offering on a case-by-case basis.
- Implementation of double or multiple voting rights.
- Capping voting rights above a share ownership threshold.
- Appointing of a director that is a natural person serving on more than three boards of listed companies, if they perform executive roles, and five boards if they do not perform executive roles. The chairmanship of an audit committee is considered as an additional director position. If we feel that a director, exercising executive functions, is not sufficiently able to exercise all his functions of director, we may decide to lower from 3 to only one the number of position he may hold in listed companies
- Any resolution destined to limit the power of shareholders such as for example when new shares are issued.
- Issuing securities conferring special rights conflicting with the principle of "one share, one vote" (e.g. preferred shares).
- "Linked" resolutions grouping several decisions (e.g. regulated agreements, appointments of directors).
- Stock offerings reserved for employees at a discount exceeding 20%. In the case, as specified by the law, of an engagement of share blocking during at least 10 years, the discount rate can reach 30%.

- Capital increases without preferential subscription rights and without a guaranteed priority subscription period of a minimum of five days are limited above 10%.
- All authorisations for capital increases requested by the company involving amounts of more than 30% of the share capital. We would appreciate that companies justify the volume of capital increase authorisations and that, these authorisations be submitted for approval by Annual General Meeting. In a case by case basis, and if the request is justified, (e.g. in case the company has shown an acquisition policy with a track record of high level of value creation) we could accept a capital increase authorisation above 30%. In the opposite, we may need to lower the rate of 30% if a company showed a significant lack of communication.
- Any capital decrease through share repurchase resulting in a free float under 30%.
- Any donation to a political party.

### 3 – Compensation policy of listed companies

- Allianz Global Investors France requests the utmost transparency in respect to amounts and methods used to calculate direct, indirect or deferred individual compensation for the ten highest-paid persons of the company exercising management positions.  
A summary of total compensation of executive officers must be provided in a table presenting all commitments over a period of three years.  
Allianz Global Investors France strongly encourages companies to provide shareholders with the necessary information enabling shareholders to establish the ratio between senior management and median employee compensation.
- Allianz Global Investors France insists on the fundamental role of the compensation committee whose members must be free of conflicts of interest.
- Fixed compensation of management must be based on standards of the industry, market or sector of activity.
- Variable compensation is based on whether the company's performance targets are achieved and the relative change in the company's share price compared to its sector of activity. We can appreciate that, on a case-by-case basis, payment of a portion of variable compensation may be deferred.
- Compensation of non-executive directors should be subject to the approval of the general shareholders' meeting, either through regulated agreements, or by including and separating this compensation from attendance fees. Moreover, compensation should, firstly, not include a variable slice and, secondly, not exceed ten times the average company attendance fees. In the case of excessive remuneration non subject to shareholder approval, we may express a negative vote on regulated agreements and/or attendance fees.
- Stock option grants must constitute incentives for management performance and retention. Issued without a discount and at certain predefined intervals, transparency is required concerning the criteria according to which they are granted, performance conditions, the number of beneficiaries and the portion reserved for executive officers.
- Bonus issues that are subject to the same allocation and transparency criteria as stock options must constitute incentives for performance and retention for the largest possible number of employees. They may not exceed 2% of the company's share capital.  
Allianz Global Investors France supports the disclosure of a breakdown between the number of bonus shares granted to corporate officers and those destined to employees.  
The total amount of stock options and bonus shares must not result in a capital dilution of more than 10% (except in special cases such as small and mid caps).
- In addition to their submission to performance conditions required by law, severance payments to directors and executive officers may not exceed two years of total compensation (including a possible non-competition clause) and must be subject to a specific regulated agreement. These severance payments are only paid to a director in the event of a forced departure linked to a change in control or strategy.  
Performance conditions should not be solely linked to financial performance criteria but should also take into account non-financial variables (social and environmental criteria).  
The director's time at the company as well as conditions of departure are analysed and considered on a case by case basis.

- For defined benefit pension plan, it is recommended that the company should show greater transparency in its annual report (method of calculation, age, reference period).