

PROXY VOTING GUIDELINES

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INTRODUCTION

In accordance with the FRR's foundational texts, the Fund's voting rights are exercised by proxy, by the asset managers it has selected. Moreover, proxies are voted in the sole interest of the Fund. Management mandates entrusted to these asset managers address the dual obligation of voting proxies and of conducting an independent preliminary analysis of the draft resolutions put to a vote at shareholder meetings, on the basis of guidance contained herein on voting proxies.

The FRR may not hold more than 3% of the equity capital of any one issuer. In other words, as an investor the Fund is always a minority shareholder whose equity ownership varies in accordance with the investment decisions made by its asset managers. As a corollary, the FRR does not seek representation on any of the corporate governance boards of the issuers in which it invests.

THE FRR SUPERVISORY BOARD FORMALLY RATIFIED THESE GUIDELINES, ACTING ON THE RECOMMENDATION OF THE FRR EXECUTIVE BOARD. They are based on the following general principles:

1/ It is in the FRR's interest to participate actively in improving corporate governance in the issuers in which it invests. The aim of this participation is to promote a clear and balanced separation of powers in the corporate governance bodies of these issuers as well as reliable information for shareholders, and respect for shareholder rights and the integrity of shareholder votes. Consequently, improved corporate governance is one of the key factors contributing to the sustainability of the business community, the continuity of business strategy, and the way in which issuers fulfill their stakeholder commitments. Moreover, the combination of these factors has a direct and positive impact on future valuation.

2/ The FRR is by nature a long-term investor. In structuring its portfolio and awarding asset management mandates that correspond to the investment strategy decided on by the Supervisory Board, the FRR has opted for an active approach, based on the analysis of the valuation prospects of the debt and equity securities issued by the various types of issuers. Therefore, it is reasonable to expect that this long-term perspective be taken into account by the asset managers in the case by case application of the guidelines contained in this document, particularly when assessing the wisdom of proposed equity and debt transactions that impact the issuer's financial condition.

3/ Efforts to raise standards of corporate governance have been accentuated in recent years at the behest of corporations and industries as well as in response to regulatory and legislative initiatives. These efforts must be pursued. However, the active approach to voting proxies that the Supervisory Board has chosen for the Fund must also be pragmatic, taking into account local market conditions or business-specific factors related to the issuer's relative size, as well as major differences that may be found between corporate law and corporate governance practices from one country to the next even within the European Union.

These guidelines were defined using a variety of recommendations in force, in France and abroad, issued by investors, industry organizations and international bodies (such as the OECD). They are sufficiently broad to allow each asset manager to take into account the customs and practices that prevail in different financial markets. Managers may also refer to standard practice on questions that are not covered by the FRR's guidelines. These will gradually be fleshed out and/or modified as needed in response to actual practice. Application of these guidelines will be discussed in an annual report submitted by the Executive Board to the Supervisory Board.

1. PRINCIPLES PERTAINING TO SHAREHOLDER RIGHTS

1.1 Capital and voting structures and the principle of equal treatment of shareholders

Capital and voting structures have a direct and decisive influence on the respect for fundamental shareholder rights.

Equal treatment of shareholders, majority and minority alike, in particular with respect to disclosure and the exercise of voting rights, is one of the bedrocks of corporate governance. The FRR has a stated preference for a capital structure composed of only one type of capital stock, and for the "one share, one vote" principle. For this reason, the FRR expects its asset managers to submit their reservations in writing whenever proposals are put forth that cap the voting power once ownership of a certain percentage of equity capital is reached.

However, the issuance of securities with special rights attached (shares with double voting rights or preferential shares, i.e. shares with no voting rights but with dividend payment priority, compound security issues, etc.) may be considered as a legitimate means to spread the risks and rewards within an issuer, as well as to retain shareholders or find suitable funding in certain situations. When faced with proposals of this type, it is advisable to ascertain that they actually cover cases (i) where shareholders are being offered a certain preference in return for their willingness to invest in the company's long-term development by maintaining their holdings for more than two years, or (ii) where a long-term strategic partnership is being established with an investor whose holding strategy are also long term in nature.

With respect to the issuance of new equity (capital increases) that entail a waiver of preferential or priority subscription rights, the issuer will be asked for the sake of transparency to explain the rationale and utility of the contemplated transaction. Examples include unexpected or unplanned strategic equity transactions, and special opportunities to raise funds that require forgoing standard procedure and timeframes with respect to the exercise of the right of ownership. In all cases, the dilution impact on minority shareholders must be both reasonable and adequately explained.

1.2 Disclosures to investors prior to all shareholder meetings

Informed voting at shareholder meetings presupposes that detailed information has been disclosed to all shareholders sufficiently in advance to enable them to consider the issue at hand.

Consequently, it is critical that the annual financial statements be made available to shareholders as rapidly as possible after they have been ratified by the Board, and that all documents pertaining to the shareholder meeting be made available to all shareholders in as timely a fashion as possible after the meeting notice has been duly published, via securities account holding agents and the issuer's web site. Compliance with the obligation of prior disclosure will have a direct impact on the FRR's decision to ratify the financial statements.

Three types of documents or information must be widely and fully disclosed:

- The issuer's financial statements, together with the independent accountants' report, must be presented in such a way as to enable shareholders to assess the quality of their investment, to ascertain the financial condition of the issuer and the value of the investment in equity, and to make an informed decision to hold or sell their investments. The annual financial statements must be drawn up in strict accordance with accounting principles, with adequate oversight by the Audit Committee (see *infra*). The FRR will vote against the ratification of financial statements if they are accompanied by a "qualified opinion" of the independent accountant as to their fairness.

- The reference document, if it exists, must be easily accessible to the shareholder.
- The Board's report to the shareholders is also crucial, and must be such that it enables shareholders to follow changes in the financial status and learn of the issuer's strategic business decisions and directions.

Acquired experience in this area suggests that the following information should be given particularly detailed treatment in the written reports submitted to the shareholders:

- The issuer's medium- and long-term business strategies
 - The issuer's dividend policy
 - The debt policy, and in particular the impact that a rating downgrade would have on the issuer's liquidity
 - The issuer's off-balance sheet commitments (unrecorded liabilities) in terms of type, amount, related risks, etc., and the measures taken by the issuer to identify and assess risk exposure
 - The issuer's exposure to complex financial instruments, particularly OTC derivatives used for speculative purposes
 - The issuer's regulated agreements
 - The compensation committee's report
 - The issuer's executive compensation and benefits policy (see *infra*)
 - The issuer's environmental and social policy.
- All resolutions must be clearly and fully explained by the Board, with particular emphasis on their rationale and consequences, particularly when they pertain to capital increases.

Finally, the result of all resolutions submitted to a vote and the minutes of the annual meeting must be made available to all shareholders rapidly and as a matter of course, in particular via the issuer's web site.

1.3 Resolutions put to shareholder vote

1.3.1 Bundled resolutions

The practice of bundling resolutions, which involves grouping a number of proposals under one resolution, is not acceptable even if the proposals are similar in nature. Each decision must be submitted separately to a vote of the assembled shareholders. In particular, each individual nomination to the Board must be presented, considered and voted on separately, as it has to be the case for regulated agreements, too.

1.3.2 Changes in shareholding

The adoption of schemes designed to stall in advance subsequent material changes in shareholding (via public takeover bids) may be detrimental to the rights of minority shareholders and weigh adversely on the issuer's valuation.

When considering proposals of this kind, the following criteria need to be taken into account:

- Such systems must be justified by the long-term interest of the issuer, its shareholders and its employees, and not by management consolidation.
- Such systems must be in conformity with the provisions of Directive 2004/25/CE pertaining to corporate takeovers as well as with domestic implementation procedures in force within Member States of the European Union. They must also respect general principles related to equal treatment and protection of shareholders, transparency and full disclosure of information, the interests of the issuer as a whole as well as any possible clauses of reciprocity.

- In cases where such systems already exist, it is generally preferable that their implementation and, in particular, all authorizations to issue equity or warrants or every repurchase of issued shares capital be submitted to the prior approval of the shareholders during the offering period. In cases where domestic legislation and regulations empower shareholders to delegate power to the Board, this delegation must be subject to strictly defined conditions that comply with such legislation and regulations and must be carefully monitored, in particular with respect to maximum issue volumes and duration.

1.3.3 Appointment and re-appointment of independent accountants

The fairness and accuracy of the issuer's financial statements and all financial disclosures made to shareholders are intimately related to investor trust in the market. The process for selecting independent accountants and for ascertaining their independence and objectivity are particularly important given the role that the latter assume. For this reason, it is preferable whenever possible that the appointment/reappointment process be placed under the responsibility of the issuer's Audit Committee, which in turn is expected to submit a report to the Board in which its selection and the rationale for same are set forth prior to soliciting shareholder ratification.

Three basic criteria may be used to this end:

- Organizations and entities that have a direct relationship with the independent accountant must not be engaged by the issuer or by any of its affiliates to perform support and consulting assignments that involve significant sums for these entities compared with the total fees earned by the group over the year, such that the independence of the accountants may be called into doubt. Moreover, these support and consulting assignments should not be related to critical strategic questions for the issuer or its affiliates.
- In the event that an audit and consulting assignment is entrusted by the issuer to an entity associated with the independent accountant, the latter must be able to guarantee that this assignment will in no way compromise its independence and objectivity.
- Directors and officers of the issuer or of its affiliates must not have business or personal relationships with associates in charge of the independent accounting.

1.3.4 Dividends

The dividend paid to its shareholders by an issuer is a key component in the return on the issued shares, and a key factor in assessing the value of the said shares. Nevertheless, the proportion of the issuer's earnings used for the payment of dividends must be in line with demands on the reserves of the issuer which allow for the vigorous and enduring development of the business.

(a) Dividend distribution

This distribution must be put to an annual shareholders vote, and must be contained in a separate (i.e. not bundled) resolution.

(b) Conditions for the granting of preferential benefits for certain types of capital stock

By virtue of the principle of equal treatment of shareholders, the granting of special privileges to certain types of shares, such as the right to priority payment of a dividend or the right to a larger dividend, is not acceptable except under the conditions set forth above in section 1.1. (i.e., as part of an explicitly detailed initiative to retain shareholders, obtain funding for specific purposes, etc.).

2. GENERAL PRINCIPLES OF THE BOARD OF DIRECTORS

2.1 Members of the Board of Directors

2.1.1 The Board's role

The fundamental role of the Board of Directors is to defend shareholder interests whilst respecting those of other stakeholders (such as clients and employees); to determine long-term strategies; and to oversee their execution. Over and above these critical functions, the Board is also empowered to carry out three primary missions, for which it is accountable to the shareholder general meeting:

- Determine business strategy orientations and oversee their implementation, in particular by recruiting senior management and managing succession issues for key positions, exercising management control, and setting executive remuneration.
- Ensure that the information made available to shareholders and financial markets is reliable and that generally accepted accounting policies and principles are complied with.
- Ensure that shareholder meetings are properly conducted and execute all decisions duly made by the shareholders.

The Board of Directors is also expected to respect values which promote balanced economic, social and environmental development as an integral part of improved corporate governance.

2.1.2 Board self-assessment

Given the importance of the Board's role, it is necessary that this body conducts regular reviews of its own operating procedures and practices, its work and performance, and the contribution of each one of its members. This assessment must be carried out on a regular basis to ensure that the Board fulfils its duties efficiently and that it has adequate resources and procedures to do so.

In addition, the Board is expected to inform shareholders in its written annual report of the number of meetings held, member attendance at these meetings, organization, operating procedures and the work done by special committees.

2.1.3 Diversity of membership

For any organization, the competency and independence of its directors are the keys to efficient management. It is also vital that Board meetings serve as a forum for discussion and decision-making and that the free play of competing ideas as to the strategic vision and conduct of business be promoted. Balanced representation of men and women, and the diversity of its members in terms of career, experience and age are the keys to enriching Board discussion and should be taken into account whenever the terms of office of board members expire. Particular attention should be paid to ensuring the women are represented on boards.

2.1.4 Number of members

It is preferable that the number of directors on the Board be sufficiently limited to ensure that the accountability of each member, and his or her commitment to specific duties, not be overly diluted. Moreover, the number of Board members should be subject to periodic review as the issuer's strategy evolves, to ensure that the Board has enough members to deal with planned

transactions and that new competencies are added as needed, while ensuring that the Board's ability to function efficiently is not hampered by its size.

To ensure that these objectives are met, it is preferable that the Board of Directors be composed of at least seven members and no more than fifteen.

2.1.5 Separating the role of Chairman and CEO

Establishing separate roles for the Chairman of the Board and the CEO (chief executive officer) encourages collegial decision-making on matters of importance for the issuer and prevents the concentration of decision-making powers in the hands of a single individual. It also ensures that the duties related to long-term business strategy and managing day-to-day operations are evenly distributed.

In cases where the Board actually has the resources and information needed to fulfill all of its duties, it may be possible and satisfactory to appoint a single individual as Chairman and CEO. In this case, it is preferable that the Board periodically review the wisdom of this arrangement (for example, during its annual self-assessment) and submit its findings to the shareholders in its annual report.

2.1.6 Independent directors

(a) Principle and definition

In light of the diversity of practice from one country to the next in terms of the structures and internal operating procedures that govern boards of directors, a certain degree of diversity also exists with respect to how the notion of "independence" itself is understood. The FRR has opted for a broad-based definition, and considers that *"a director is independent when he or she has no relationship whatsoever with the company, its group or its managers which might reasonably be expected to interfere with the exercise of his or her independent judgment."*

Whatever definition of independence the issuer adopts, it must be made public. Furthermore, the Board's independence and ability to analyze and judge require the inclusion of a sufficient number of directors who have no ties with the company or any of its governing bodies that could interfere with their objectivity in the performance of their duties or expose them to conflicts of interest.

The Selection Committee (also called the Nomination Committee) is responsible for assisting the Board in determining whether or not its directors are independent.

In particular, the following criteria should be used to assess whether a director is independent or not, both by the Selection Committee and the Board:

- Is the director or has the director been employed by the company or one of its affiliates (or related parties) at any time within the past five years.
- Is the director an employee, director or officer of a controlling shareholder in the issuer or one of its affiliates?
- Does the director have more than 10% of the voting power and is the director a controlling shareholder of the issuer.
- Is the director an executive officer of a company in which the issuer has a direct or indirect directorship or in which a designated employee or executive officer of the issuer (currently or in the past five years) holds a directorship.
- Does the director receive additional remuneration from the issuer, one of its affiliates or its executive management other than his or her director's fees?

- Is the director affiliated with any significant client, supplier, banker, advisor or, in general, any commercial or financial partner of the issuer, its affiliates or its executive management, or for which the issuer, its affiliates or its senior management accounts for a significant portion of its consolidated revenues?
- Is the director a member of the immediate family of an executive officer of the issuer?
- Is the director or has the director been the independent accountant of the company at any time in the last five years?
- Has the director served on the board for more than twelve years?

The definition of independence that the Board provides on recommendation from the Selection Committee must be fully disclosed to the shareholders whenever a directorship comes up for election or re-election (see *infra*).

(b) Number of independent directors

It does not appear to be necessary to require that an absolute number of independent directors be appointed to the Board of Directors. It is sufficient to state that a "*significant proportion*" of the Board be made up of independent directors, i.e. between one-third and one-half of the Board's members for listed issuers with a dispersed capital ownership base and no controlling shareholders.

2.1.7 Informing shareholders of Board appointments

It is very important that full and transparent disclosure be made to all shareholders who are eligible to elect or re-elect a member of a corporate board in order to demonstrate the importance of such.

Each proposal to nominate or re-elect a director must be set forth in a separate resolution submitted to a vote of the shareholders at their annual general meeting.

2.1.8 Characteristics of directorships

(a) Nomination or re-election of directors

The decision to elect or re-elect a member of the Board of Directors will be made primarily on the basis of the following criteria:

- The nomination process has been handled by a special committee of the Board, such as the Selection Committee or equivalent, and adequate information has been provided as to the competency, availability and, where relevant, the independence of the nominee or incumbent.
- The number of Board members is not too high (fewer than fifteen).
- The number of independent members represents a significant proportion of the Board (between one-third and one-half for listed companies).
- Appropriate information has been provided on the nominee that enables shareholders to assess his or her ability to perform the duties of a directorship.
- The nominee or incumbent does not exercise too many directorships in companies that are not affiliated with the group (see *infra*).

(b) Multiple directorships

The involvement of directors in the long-term development of the issuer on whose board they serve and their attendance at board meetings require that each one be able to devote sufficient time to the performance of the duties of directorship.

Serving on too many boards of directors runs counter to the requirements of involvement and efficiency. The FRR does not envisage recommending a maximum number of outside directorships that may be held, since this will depend on numerous factors, such as company size and the duties performed. However, it is highly recommended that the Selection Committee try to ensure that the total number of directorships held is compatible with the necessary availability required for each directorship, and should be attentive to instances where a director has more than three directorships in companies that are not affiliated with the same group.

(c) Term of directorships

Directors are responsible for defining and implementing company strategy, and are accountable to the shareholders for their performance in this area. Consequently, a balance must be struck between the need to form a Board that can implement long-term strategy, and the right of the shareholders to ensure that the Board and its members are doing their job, including the requirement to submit directorships to a vote of the shareholders at a general meeting.

It is preferable that the term of a directorship be capped at four years. In the interest of maintaining a coherent long-term strategy for the company, it is up to the Selection Committee and the Board to make sure that directorships come up for re-election in a staggered manner, thereby avoiding a situation where all seats are up for re-election at the same time.

(d) Mutual directorships

The existence of mutual or reciprocal directorships (unless between affiliates or related parties of the same group) is not an acceptable practice unless it is the result of an effective strategic alliance that has been brought to the attention of the shareholders, or unless significant cross-shareholdings exist between the companies in question.

2.2 Board processes

2.2.1 Establishment of special committees

The establishment of special committees within the Board plays a fundamental role in corporate governance, ensuring that the Board functions smoothly and receives sufficient support in carrying out its role. The level of competency and independence required of Board members is such that certain issues - either those that are complex or those that carry a risk of conflict of interest - be entrusted to sub-committees. This does not in any way mean that the Board's accountability as a collegial body is reduced or replaced.

Both the number and structure of such committees depend on the size and organization of each company. Regardless of the scope of each committee's brief, however, it is critical that questions relating to (i) directorships, (ii) compensation policy and procedure, (iii) financial statement reviews and (iv) the selection of independent accountants be handled by a special committee, at least two-thirds of whose members are independent.

Whenever possible, at least three special committees should be formed: i.e., a Selection Committee, a Compensation Committee and an Audit Committee. The role and duties of the Selection and Compensation Committees may be subsumed under a single committee.

(a) Selection Committee

The Selection Committee is responsible for finding suitable candidates and for conducting the process of nominating and electing members of the Board of Directors. It plays a key role in ensuring that the Board is comprised of individuals whose competencies, availability and regular rotation improve the quality of corporate governance.

It is preferable that the Selection Committee be composed primarily of independent directors. Executive directors (i.e. members of the board who are also officers of the company) should not serve on the Committee. The Selection Committee may consult the Chairman of the Board as often as required.

The Selection Committee should establish stringent criteria for screening potential executive directors, weighing such factors as the required competencies, the level of independence (for example, with respect to the aforementioned criteria) and potential contribution to the Board.

(b) Audit Committee (also called the Accounts or Accounting Committee)

The Audit Committee plays a key role in ensuring the transparency of all financial statements and their capacity to adequately explain all of the financial and economic risks to which the issuer is exposed.

With respect to the competency and independence of the Audit Committee, it is necessary that the Committee be composed of a limited number of members, and that two-thirds of its members be independent directors. The Audit Committee must not include members who also exercise executive management functions. At least one member of the Audit Committee must have specific expertise in financial or accounting matters and be independent.

Specifically, the role of the Audit Committee is threefold:

- It is responsible for monitoring the integrity of the issuer's financial statements. To this end, the Audit Committee reviews the main accounting policies and principles used to prepare the financial statements, such as the scope of consolidation.
- It monitors the efficiency of the issuer's internal audit procedures, its systems of internal control and its risk management. In particular, the Audit Committee should examine off-balance sheet items and the impact of a rating downgrade on the issuer's cash flow and commitments, particularly when related to the use of derivatives (especially those traded OTC) that may be important for the issuer, and give opinions on the adequacy of the internal audit organization and the risk management.
- .
- It monitors the work of the issuer's independent accountants and issues recommendations on their nomination, re-appointment and/or removal.

To carry out its role, the Audit Committee must have access to all internal documents and be able to interview the independent accountants. It must also be able to meet with managers in the accounting, financial and internal audit departments privately without the presence of their superiors.

Finally, it is preferable that, in its report on internal control or in the annual report to the shareholders, the Board take the opportunity to communicate broadly and fully on the existence and the work done by these various committees.

(c) Compensation Committee

The Compensation Committee (also called the Remuneration Committee) must be composed of a limited number of members, the majority of whom are independent directors. The Chairman of the committee must be an independent director. Directors who are officers of the company must not serve on the Compensation Committee.

The procedures and workings of the committee and its role and powers must be described in a set of internal regulations that have been approved by the Board of Directors.

The role of the Compensation Committee is to give the Board the information it needs to determine compensation and benefits levels for all executive directors and officers (fixed pay, variable pay, benefits in kind, retirement plans, stock option plans or free share allotment plans, severance bonuses). It may also be empowered to make recommendations on the structure and level of compensation awarded to executive management of the company. To this end, it defines a set of guidelines and work methods that will be explained to the shareholders, both in a special chapter in the annual report and, as the case may be, by the chairman of the Committee to the annual shareholders' meeting. The Compensation Committee should be allowed to call on outside consultants as needed.

2.3 Compensation of executive directors and officers

Executive compensation policy depends mainly on each company's situation and development prospects, as well as on the industry in which it operates and the competitive environment. With the assistance of the Compensation Committee, the Board of Directors should have a great deal of latitude in defining compensation policy, so that it can recruit and retain the best talent in key executive and non-executive positions.

At the same time, compensation and benefits awards must always be reasonable and warranted in light of relevant and objective criteria, and they must reflect actual exposure to risks—it being understood that all employees face risks, not just company executives. Overall, compensation and benefits policy must be measured and balanced, and it must contribute to cohesion within the company.

2.3.1 Employment of executive directors and officers

It is the policy of the FRR to require that its executive directors and officers not be allowed to enter into an employment contract and be a member of one of its governing boards at the same time. In fact, the risk taken by executive directors and officers in accepting a position on a board is offset by the policy of offering adequate compensation to board members, which means that they do not need the added protection of an employment contract.

2.3.2 Transparency

It is legitimate to expect that shareholders have full disclosure and that they have a clear idea not only of individual compensation and benefits paid to executive officers of the company, but also of the global cost of company management and the policy and procedures governing executive compensation awards.

For this reason, the annual report must include a report from the chairman of the Compensation Committee on the work of the Committee during the year ended, with a special chapter devoted to providing information that offers shareholders visibility over the (i) the policy for determining compensation and the criteria and principles used to calculate executive pay, in particular the basis on which it is awarded; (ii) methods used to calculate and the amounts of individual executive compensation, both direct and indirect, immediate and deferred and, individually or globally, for the individuals who exercise senior management functions on the executive board or in general, as the case may be; (iii) procedures for granting stock options to executives, individually or globally, and other individuals who exercise executive management positions on the executive board or in general, that allows readers to clearly analyze the possible impact of a stock option plan in terms of its cost to the

business as well as in terms of dilution of existing shareholders, in the case of stock subscription options; (iv) the global and individual amounts of executive director's fees paid to executive directors and the rules for allocating these fees.

In the same way, the general policy used by the Compensation Committee and the Executive Committee to grant options must be clearly spelled out whenever a resolution proposing the authorization to grant options is submitted to a vote of the shareholders.

In addition, the financial institutions that are concerned by the recommendations set forth at the G20 summit meeting in Pittsburgh with regard to compensation must indicate in their annual report (i) the principal characteristics of the compensation policy, and (ii) quantitative data on compensation paid to executives as well as to employees who work with the financial markets.

2.3.3 Issuer performance and compensation

The Compensation Committee and the Executive Board should ensure the incorporation of at least four guiding principles when developing a pay policy for the executives of an issuer, which should be reasonable and balanced, and must contribute to cohesion within the organization:

- Pay awards must always be justified and justifiable on the basis of relevant and objective criteria and must take into account the actual risk factors, it being understood that risks exist for all employees and not just executives.
- Total compensation should be consistent with the issuer's financial condition and the practices of comparably-sized issuers in the country and industry in which it operates.
- The relative proportions of variable pay and base pay must encourage executives to achieve high performance levels without pushing them to take excessive risks. Variable pay should be based on transparent and verifiable performance criteria.
- The compensation of executives and directors should ensure that their interests are aligned with the long-term performance of the issuer and the long-term interests of shareholders.

The variable component of compensation should not be tied solely to the share price of the issuer's stock, which would tend to encourage short-term thinking. Instead, variable pay should be based on the issuer's long-term performance assessment criteria.

In return for their commitment and dedication, it is only natural that directors receive a yearly lump sum payment for their services. The maximum annual amount of this sum should be determined on the basis of the issuer's financial condition, its growth outlook, the industry in which it operates and the competitive environment. It is recommended that the annual report following the vote on such amounts include the amounts allocated by the Board to each director.

2.3.4 Stock options and free allotment of stock

The principal criteria that may be used to analyze these plans are listed below:

- Authorization and allotment of these options must be submitted to a vote of the shareholders in the form of a resolution, based on a special report of the independent auditors and annual disclosures to the shareholders in a special report on these transactions (recap table containing the relevant data on stock option plans in force).

- The extent to which the measures apply to employees, executive directors and officers of the issuer and the frequency of allotments must be defined in advance. It is important that the programs devised to encourage employee stock ownership be clearly spelled out and differentiated from those reserved for directors and officers of the company.
- Option grants made to executive directors and officers must be contingent upon performance conditions, the criteria for which must be explicitly spelled out in requests for authorization, with free allotments of stock being reserved exclusively for employees.
- Grants must be regular, in order to prevent the appearance of opportunistic grants, particularly during periods when the stock price falls.
- Changes in the exercise price during the term of the option must be allowed only under exceptional circumstances, must be strictly supervised, and must be submitted to prior shareholder approval.
- There must be no discounts on these options, in particular when they are granted to directors and officers and to top executives.
- No stock option hedging instruments may be used.
- There must be negative windows for exercising options, in order to prevent the use of insider information, particularly during periods that precede the disclosure of financial information.
- For stock options, the holding period before the options may be exercised must be significant and the dilution of earnings per share for the other shareholders minimal. In particular, executive directors and officers of the company must be required to hold a certain and significant number of shares for as long as they are in office.
- With respect to plans for the free allotment of shares, the same principles apply *mutatis mutandis*.

In all of the cases described above, the procedures for granting options or free allotments of shares, the percentages granted to officers and executive directors of the company, and the performance criteria that are taken into consideration when grants are made must be spelled out, and their impact on the issuer's equity capital must be indicated when they are submitted to a vote of the shareholders.

2.3.5 Severance packages

Severance pay clauses must be included in executive employment contracts for executive directors and officers and in the employment contracts for other senior managers. In addition, they must be brought to the attention of the shareholders in resolutions that are separate from those pertaining to regulated agreements.

No severance pay is paid in the following cases:

- If an executive leaves because he or she has failed or because he or she has put the organization in a situation of failure;
- If an executive resigns ;
- When an executive retires.

Severance pay must not exceed two years of total pay (fixed plus variable component). This cap must include any amounts payable in application of a no-compete clause.

The Compensation Committee should ensure that the severance pay offered to executives is proportional to their seniority and the performance of the issuer throughout their term.

2.3.6 Supplemental retirement pay

Supplemental defined benefit retirement plans are benefits that the organization may offer to certain employees, including its senior executives (executive directors and officers). When global compensation and benefits packages are calculated, the value of this benefit should be taken into account.

The benefit entitlements offered under such plans must not exceed a limited percentage of global compensation and benefits.

3. GENERAL PRINCIPLES PERTAINING TO RESOLUTIONS OF AN ENVIRONMENTAL, SOCIAL OR ETHICAL NATURE

In the event that resolutions are submitted, either at the initiative of the Executive Board or at the initiative of the shareholders, on topics of a social, ethical or environmental nature, they should be analyzed on the basis of the following principles, which the FRR has either developed or to which it adheres:

UN Global Compact:

- human rights
- basic worker rights
- the environment.
- anti-corruption

The FRR's socially responsible investment guidelines, as adopted by its Supervisory Board and as published on its website (www.fondsdereserve.fr):

- Show respect for basic human and worker rights
- Develop employment by improving the quality of human resource management
- Assume responsibilities with respect to the environment
- Show respect for the consumer and market principles and practices.

In addition, the FRR is a member of the UN's PRI initiative (Principles for Responsible Investment, website: www.unpri.org), signed the Carbon Disclosure Project and supports the EITI (Extractive Industries Transparency Initiative).

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