

Voting policy and governance principles for listed companies

2020



**Caisse
des Dépôts**
GROUPE



Introduction

As a responsible investor and active shareholder, Caisse des Dépôts plays fully its role by systematically voting in the general meetings of listed companies in which it invests. To do so, it refers to the voting policy defining its expectations as regards corporate governance. These principles serve as the basis for dialogue with French and international listed companies and with market authorities and organisations.

Caisse des Dépôts is responsible, as a long-term shareholder, for promoting good social, environmental, ethical and governance practices, and firmly believes that they are key to sustainable business growth and long-term value creation for the benefit of all stakeholders. Caisse des Dépôts therefore strives to foster the emergence of transparent, responsible and balanced governance structures. Through its voting policy and shareholder engagement initiatives, Caisse des Dépôts engages with businesses as part of a constructive, long-standing relationship.

Caisse des Dépôts has defined its corporate governance principles and voting policy by incorporating different French or international guidelines issued by investors, and trade and international organisations, such as the Afep-Medef Listed Company Corporate Governance Code, OECD Principles of Corporate Governance, Global Corporate Governance Principles of the International Corporate Governance Network (ICGN) and UN Principles for Responsible Investment.

The voting policy is applied pragmatically, to take account of each market's specific features, as well as local practices, market regulations, business sectors, and the special situations of certain companies, including their size, shareholding structure and economic and financial circumstances.



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Governing Bodies

1.1 Separation of Oversight and Executive Powers

Good governance requires a clear and effective separation of responsibilities for defining and overseeing the long-term strategy on the one hand, and operational implementation on the other. This separation of powers helps prevent conflicts of interest, improves the efficiency of management and introduces an additional component of oversight and responsibility. A company with a management committee and a supervisory board naturally separates these duties. In firms with a board of directors, Caisse des Dépôts is in favour of separating the roles of Chairman and Chief Executive Officer. Furthermore, a non-executive chairperson must be an independent member, except in the case of controlled companies.

Where these powers are not separated, Caisse des Dépôts expects the situation to be justified. It recommends having an "opposition force" on the board particularly by appointing an independent senior director (or independent vice-chair), with reinforced, substantial and clearly defined powers. Detailed information must be provided on the senior director's work. Responsibility for maintaining dialogue on governance issues between the board and shareholders must also be given to the non-executive chairperson or senior director.

Directors and particularly independent directors must be able to communicate

regularly without the participation of senior executives.

1.2 Membership and balance of boards of directors / supervisory boards

The board is a strategic body with responsibility for defending the best interests of the company and its shareholders. Membership must therefore comply with principles of balanced stakeholder representation, diversity and wide-ranging expertise.

Board size – The number of members should be limited (between 5 and 16 at the most, excluding employee representatives) to enable efficient functioning and avoid weakening individual responsibilities. The inclusion of non-voting members should be limited and justified by the board. Caisse des Dépôts encourages involvement of staff representatives on boards, whether they are shareholders or otherwise.

Independence – The board must be able to define and oversee strategy, conduct critical dialogue with management, assess its performance and manage conflicts of interest. It therefore requires balanced representation, especially via significant participation of independent members, to avoid conflicts of interest. The required proportion of independent members for an effective board depends on the shareholder

structure and the participation of any dominant shareholders. The proportion of independent members should account for half the board's members in companies with widely-held share capital and no controlling shareholders. In controlled companies, this proportion should be at least one third.

Diversity – To guarantee a spirit of openness, wide-ranging opinions and good quality work, the board must ensure that its membership is balanced and diversified in terms of academic and professional background, international experience and expertise. Caisse des Dépôts sets great store by equal representation on boards. It expects the proportion of members of each sex to be at least 33% (or 40% in France and Norway).

Term of Office – Appointments must be regularly submitted to shareholders for their vote to ensure board performance and responsibility to shareholders. To foster continuity in the company's administration, it is advisable to stagger directors' appointments. Caisse des Dépôts recommends a term of office limited to four years with a maximum total length of 18 years; however, Caisse des Dépôts considers that board members lose their status as independent after 12 years.

Availability - Caisse des Dépôts expects board members to be sufficiently available to play an effective role and devote time to defending the best interests of the company and its shareholders. Each member should therefore only hold a number of offices in which they are effectively able to fulfil their duties: five at the most for all members, two at the most for executive corporate officers, and a maximum of three for non-executive corporate officers. Furthermore, non-executive corporate officers should not have several appointments as non-executive corporate officers. Member attendance at both board and committee meetings should be disclosed annually. Attendance levels are expected to be high.

1.3 Board Procedure

Comprehensive, detailed information should be provided on the operation of the board: duties and tasks carried out by the board and specialised committees, number of meetings, members' individual attendance, board assessment report, and general procedures.

Specialised Committees – Each board should have specialised committees whose members have the necessary expertise and independence to prepare the board's decisions. The audit or accounting committee is vital to oversee preparation of the financial statements, the efficiency of internal control and risk management systems, and relations with statutory auditors. The compensation committee is tasked with making proposals concerning the various components of senior executives' and board members' compensation. The appointments committee finds and puts forward candidates for the board and the senior management team, prepares succession plans, evaluates the company and suggests changes to its governance. Caisse des Dépôts is not in favour of any senior executives sitting on audit committees. The audit committee should include members with expertise in finance and accounting. Independent members should account for at least a third of total members, including the chairperson. The compensation committee should have a majority of independent members, including the chairperson. Caisse des Dépôts also encourages the creation of a dedicated CSR committee, to address environmental and social issues at the highest decision-making level in the company.

Board assessment – The board should regularly assess its membership, organisation and running and those of its committees. Companies must report on such assessments and the subsequent action taken.

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Compensation Policies

2.1 Compensation of senior executives officers

Good governance requires a clear and effective separation of responsibilities for defining and overseeing the long-term strategy on the one hand, and its operational implementation on the other. This separation of powers helps prevent conflicts of interest, improves the efficiency of management and introduces an additional component of oversight and responsibility. A company with a management committee and a supervisory board naturally separates these duties. In firms with a board of directors, Caisse des Dépôts is in favour of separating the roles of Chairperson and Chief Executive Officer. Furthermore, a non-executive chairperson must be an independent member, except in the case of controlled companies.

Transparency - A transparent compensation policy is an essential requirement for shareholders to assess whether compensation levels are justified by the company's profits over a reasonable timeframe.

Companies must therefore fully disclose all components of pay (fixed and variable pay, exceptional pay, compensation in cash and kind, and any shares granted), with the amounts of direct and indirect, immediate and deferred individual pay and the calculation methods used.

Moderation - Caisse des Dépôts greatly encourages compensation policies based on amounts and structures that guarantee

social cohesion within the company. Changes to pay must be justified by the business's long-term financial and non-financial performances. Total annual salaries of individual senior executives are carefully reviewed. Caisse des Dépôts does not support amounts considered disproportionate to the firm's results. We are in favour of publishing a pay ratio.

Fixed compensation – This should not significantly deviate from the median observed in similar businesses. It should only be revised after a relatively long period and any increase should be moderate. In any event, a high amount or considerable rise must be justified.

Variable compensation – Variable pay (annual, multi-annual and long-term) should be structured in order to provide adequate incentive to achieve a long-term performance goal. Variable components should be capped and must not exceed 300% of the fixed amount in target value and 400% in maximum value, to avoid encouraging excessive risk-taking or undue pay (respectively 150% of fixed salary in target value and 200% in maximum value for annual variable pay and long-term variable pay). The share of annual variable pay should remain below or equal to the portion of long-term variable pay. Variable compensation should be subject to predefined, demanding and measurable conditions openly disclosed to shareholders (with weightings and achievement rates). The criteria used should be relevant and consistent with objectives announced to the market.

Quantitative and qualitative criteria must be explained and weighted for annual variable compensation and, for long-term variable pay, the performance conditions should be measured at least once every three years, preferably with a minimum two-year retention period. Caisse des Dépôts also expects targets set for senior executives to include CSR criteria. They must be pertinent, demanding and aligned with the company's CSR strategy. The quantitative portion should prevail.

Stock Option and Stock Award Schemes

– Information must systematically be provided on these schemes with the rules of award. Target distribution must be as extensive as possible amongst employees. The target group, the limit reserved for senior executives and the performance criteria must be specified. In any event, authorisations of stock option or performance share award schemes may not exceed 1% of the share capital per annum.

Exceptional compensation – Only very special circumstances may give rise to payment of exceptional compensation and amounts should be capped in the company's compensation policy. Payment of such compensation should be disclosed and explained by the company.

Post-employment benefits - Caisse des Dépôts will only agree to severance packages for senior executives in the event of forced departure. This excludes cases of serious misconduct or gross negligence, poor performance of the company or its senior managers, resignation or non-renewal by a senior executive, change of duties within the company and cases in which the senior executive will soon be entitled to their pension. Severance pay must be subject to performance criteria assessed over at least two years. The amount must not exceed two years' salary (annual fixed and variable pay). Where the company has made provision for and can justify a non-compete clause, the total amount payable on severance and under this clause may not exceed the two-year

compensation limit (annual fixed and variable pay). Payments under a non-compete clause are excluded when the senior executive claims their retirement pension. Furthermore, in the absence of a previous non-compete clause, no agreement on this ground may be signed prior to departure. Top hat pension schemes for senior executives must also be regulated and fully detailed. They must be available to a large group. Beneficiaries must be working for the company when they claim their pension rights and have been employed for at least four years. Pension schemes must be subject to clearly defined and stringent performance criteria. The total pension must not exceed 100% of annual compensation.

2.2 Compensation of Board Members

Compensation of board members must be largely dependent on the frequency of board and committee meetings and each member's effective attendance. Caisse des Dépôts recommends granting reasonable compensation in line with practices identified in companies of a similar size (in the country and sector). Any increase must be justified by the company. Any award of variable pay is unacceptable. Specific provisions for awards of stock may be possible for small-caps, assessed on a case-by-case basis.

Compensation paid to a non-executive chairperson may take the form of directors' fees or fixed pay. When the proposed amount is high, Caisse des Dépôts expects an explanation of the duties to be discharged. In light of their duties, a non-executive chairperson should not receive any variable pay, except in special and necessarily temporary circumstances substantiated by the company.

3

Financial Structure

3.1 Share issues

Financial authorisations must be in keeping with the company's development policy, size and business environment. The company should present the reasons and advisability of any authorisations and their consequences for investors. As capital increases potentially have a diluting effect for minority shareholders, Caisse des Dépôts pays close attention to the application of limits. The use of financial delegations must be suspended during a public offering above a total ceiling of 10% of the company's share capital.

Capital increases in which priority share rights are maintained must be limited to 40% of capital for the largest market cap companies, and 50% for small caps. If the share right is not maintained, capital increases must be limited to 10% of capital (or 25% with a guaranteed priority subscription period). Above these limits, Caisse des Dépôts analyses the company's specific situation. Shareholder consultation at an extraordinary general meeting is preferable.

Caisse des Dépôts encourages broad employee shareholding in order to promote profit-sharing and retain and motivate teams. However, capital increases reserved for employees must be limited to 4% of capital.

3.2 Mergers, acquisitions, splits and other reorganization projects

Caisse des Dépôts individually analyses any plans concerning a company's business based on the long-term strategic benefits of the project. In the case of a reorganisation, Caisse des Dépôts is in favour of convening an extraordinary general meeting.

3.3 Share buybacks

Share buybacks must be assessed in light of the company's financial situation and shareholding and protect the interests of long-standing shareholders. They should not penalize long-term investments in the business.

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Shareholder Rights

4.1 Voting Rights

One share generally grants one voting right. In principle, Caisse des Dépôts is not in favour of multiplying share categories, or of granting preferential voting or dividend rights (for certain classes of shares or only a part thereof), or limiting voting rights in certain cases. Nonetheless, a double voting right may be warranted when this system aims to reflect the shareholder's loyalty, the length of their investment and their long-term commitment.

4.2 Information

Shareholders exercise their voting rights at general meetings, so Caisse des Dépôts is against anything that could prevent meetings from being held correctly. Prior information must be complete and of good quality, and all documents must be accessible for a reasonable period prior to

the meeting. Caisse des Dépôts may therefore vote against resolutions that are not sufficiently substantiated. The exercise of shareholder rights is fostered by separate voting on each item on the agenda. Caisse des Dépôts is not in favour of resolutions covering several topics.

4.3 Anti-takeover measures

During a public offering, Caisse des Dépôts is against introducing defensive measures that would run counter to shareholder interests. However, each transaction must be assessed in light of the company's economic and financial interests, with regard for its long-term strategy. Caisse des Dépôts therefore reserves the right to accept some measures of this kind where they are exceptional, justified by the company's strategic interests and do not interfere with the normal operation of its securities market.

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Company Management

5.1 Approval of Financial Statements and Discharge

Caisse des Dépôts checks that shareholders are provided with transparent, fair, complete and coherent financial information. It only approves a company's financial statements if the statutory auditors have issued an unqualified opinion and sufficient financial information has been provided in a timely manner.

Caisse des Dépôts is not in favour of granting discharge to directors, senior executives or auditors, unless it is a national requirement. No decision made by the general meeting should extinguish an action in liability against the directors for any failings in their duties. In any event, the resolution seeking discharge should be separate from the vote held to approve the financial statements.

5.2 Dividends

Caisse des Dépôts is attentive to "responsible dividend" payment that does not jeopardise the company's long-term development capacity and ensures harmonious distribution of added value among shareholders and other stakeholders.

5.3 Related-party Agreements

Information on transactions between the company and stakeholders must be available and complete (via the statutory auditors' special report).

Related-party agreements must be made in the best interests of all the shareholders. They must be strategically justified for the company and based on reasonable terms and conditions. Related-party agreements should give rise to separate resolutions, particularly in the case of agreements with natural person directors or third-party companies.

5.4 Statutory Auditors

Statutory Auditors provide independent oversight of the financial statements. Any potential conflict of interest should therefore be prevented and the quality and independence of their work must be guaranteed. Statutory auditors should change regularly and their fees should be monitored. They should not be re-appointed for an excessive length of time, especially when there is only one auditor. The maximum period must be 24 years where there are joint statutory auditors and ten where there is only one (+10 years in the event of competitive bidding). Auditors' fees must be disclosed and fees paid for non-audit assignments should not be liable to affect their independence. These fees should remain below 30% of total amounts they receive

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Environmental, Social and Ethics Resolutions

When the company or shareholders propose resolutions, Caisse des Dépôts pays attention to their compliance with its responsible investment principles (defined, in particular, in our responsible investment charter and climate policy) and the guidelines set forth in our voting policy.

Proposals must be reasonable and clearly defined. They will be studied on a case-by-case basis with regard for current shareholder dialogue.

Caisse des Dépôts particularly supports resolutions seeking:

- The definition and publication of an ambitious medium-term strategy relating to the energy and environmental transition;
- The definition and publication of reports on sustainable development indicators or greenhouse gas emissions;

- Greater transparency as regards the lobbying policy and lobbying activities, as well as sums paid out;
- Greater transparency as regards the company's diversity policy and performance;
- Greater transparency as regards the gender pay policy and gaps;
- Greater transparency as regards fiscal policies and their implementation.

Caisse des Dépôts will consider voting against any resolution if the information available is insufficient to assess its relevance and consistency with our responsible investment principles and voting policy.

Depending on the type of resolutions put forward, Caisse des Dépôts reserve the right to publish its voting decisions, where appropriate.

**Ensemble,
faisons grandir
la France**

