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2014 Regional Overview – EMEA
(Europe, Middle East, and Africa)

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Institutional Shareholder Services Inc.

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Overview

Covering Europe, the Middle East, and Africa, the EMEA region is an extremely diverse as well as geographically broad area, spanning three continents and covering a large number of different countries, sub-regions, and legal jurisdictions, as well as many languages and business cultures. ISS has a number of different policies in place covering EMEA, and in a typical year, ISS may cover in excess of 60 different individual markets across the region.

All ISS policies are based on ISS Global Voting Principles and take into account such factors as national and international best practice corporate governance codes, local laws, and relevant market-specific practices, customs, and disclosures.

All relevant market-specific factors are regularly evaluated and taken into account in developing our policy approaches, which are designed to inform and support investors in their decision-making on voting, and to promote sustainable shareholder value creation through support of responsible corporate practices.

ISS policies are regularly reviewed and updated with input from investors, issuers and other market constituents.

The policies currently applicable to EMEA cover the following markets:

- Europe (applies to Member States of the European Union (EU) and of the European Free Trade Association (EFTA), with the exception of –U.K. and Ireland)
- U.K. and Ireland
- South Africa
- Russia and Kazakhstan

For all other EMEA markets not covered by one of the specific policies above, the following policy applies:

- ISS EMEA Regional Policy

Further policy information, including the main principles applied and key markets covered by each ISS policy, is provided in the "Regional Policies and Principles" section on pg. 9. For a comprehensive understanding of ISS policies, please refer to the voting guidelines document for each.

Market Trends

Continental (Western and Central) Europe

This is largely, although not exclusively, the area of the European Union[1]. Regulation, particularly related to the European Union, has played a significant role in promoting increased transparency throughout Europe. The European Shareholder Rights Directive in particular has contributed to the removal of many obstacles to shareholder cross-border voting, such as the removal of share blocking.

This increased transparency and reduction of obstacles to voting has resulted in a constant increase in levels of shareholder voting at general meetings across Europe, from 60 percent voter turnout in 2008 to 66 percent in 2013.

Although European Union legislation has influenced Europe as a whole, there remain significant differences between markets. National differences are common, even in the implementation of European Union law. Differences are mostly embedded either in national law or in soft regulations in the form of national codes of best practice. For example say-on-

[1] The EFTA (European Free Trade Association) States, which are not EU Member States, are also included. The EFTA Member States are Iceland, Liechtenstein, Norway, and Switzerland.

pay votes are not legally required in some markets, are advisory in some, and binding in others. One clear trend however is for more shareholder votes on pay and for more legislation on both pay and voting.

Corporate governance standards are evolving across Europe as a result of both regulatory and market pressures. In our opinion this is unlikely to abate in the near future. Both hard regulation and soft regulation have the greatest potential impact in the realms of board structure and functioning (e.g. board performance and diversity) and remuneration (e.g. expanded say-on-pay and increased pay practice regulation.).

Finally, the upward trend of increased engagement between investors and the companies they own is expected to continue for the foreseeable future. This is particularly driven by the development of stewardship codes in several markets and other market drivers (such as the United Nations Principles of Responsible Investment, or UN PRI), all encouraging investors to be active and responsible owners of companies. One illustration of this trend can be seen in the increased levels of voting at company meetings across Europe mentioned above.

U.K.

The U.K. is also a European Union Member State, and therefore much of the comment above related to continental Europe also applies to the U.K. However, in addition, the U.K. has some very specific characteristics with regard to corporate governance that are worthy of note.

- The U.K. is a market with relatively high levels of engagement between companies and their shareholders. The introduction of the U.K. Stewardship Code in 2010 encouraged shareholders to engage with the aim of enhancing long-term value, and the Code also considers voting to be a part of engagement and good stewardship.

- The corporate governance regime in the U.K. market operates largely on a comply-or-explain basis through the recommendations of the U.K. Corporate Governance Code, rather than being wholly founded in corporate law. Nonetheless, there are also mandatory requirements, for example through the operation of company law, listing requirements and, in some cases, the U.K. Takeover Code.

- Say-on-pay is well established, with a high degree of disclosure required by law, and remains one of the focal points for many shareholders.

- Beginning 2014, the U.K. is introducing a binding vote on forward-looking remuneration policy, generally to be held at least every three years, in addition to an annual advisory vote on remuneration implementation.

- The U.K. market is relatively fair and open to shareholder involvement, and also has few anti-takeover mechanisms with the one- share, one-vote principle widely recognized. Preference shares and multiple classes of shares exist, but the majority of equity securities traded are ordinary shares. Whereas there are a very small number of exceptions of companies remaining with non-voting shares, these tend to be companies that have long had a dual-class structure and were grandfathered into current regulations. Voting by proxy – by mail or electronically – is a well-established practice, and no distinction is made between foreign and domestic shareholders.

Eastern Europe and Russia

Eastern Europe (also known as Central and Eastern Europe, or CEE) comprises many different countries, mainly but not exclusively historically former satellites of the old Soviet Union. Many are now also Member States of the European Union (or potential members), and therefore those markets are tending to move toward corporate governance models that are closer to European Union norms, with increasing transparency an important factor. However, there are still many variations and differences, some of which remain problematic for shareholders, whether domestic or foreign.

Russia is a distinctly separate market with its own specific characteristics. The following may be useful to note:

- In recent years, Russia has made substantial progress in the area of corporate governance, although the governance system in Russia was not particularly progressive to begin with.
- Russian board elections are quite different from board elections in most other markets in the region. Directors in Russia are elected through cumulative voting, for terms lasting until the next AGM; there are often more nominees than there are seats; this system tends to result in boards with higher turnover than in many other markets.
- Certain types of resolutions trigger the right of withdrawal ("Dissident Rights"), which is common in Russia.

Middle East and Africa

The advancement of corporate governance in much of the Middle East and Africa region has been relatively slow. This is due in part to the fact that political and market risks remain of high concern in many areas, over-shadowing any focus on governance-related risk. In addition, a history of government intervention and corruption often challenges all but the most risk-hungry outside investors. Finally, many economies are dominated by state- and family-owned enterprises (SOEs and FOEs), which have effectively shielded them from much outside influence.

Poor disclosure generally remains problematic, particularly for issues related to director elections, approval of related-party transactions, remuneration, ratification of charitable donations, and capital issuances. Annual reports are often not easily available, and relevant information and materials may not be disclosed to shareholders in advance of meetings.

South Africa: by comparison with many of its regional peers, South Africa has a well-developed corporate governance environment. South African companies operate within a legal and regulatory framework historically influenced by United Kingdom company law. The broad legal environment for companies is thus similar to that in the U.K.

- The Companies Act 2008, which came into force in 2011, provides the legal foundation for much of South Africa's governance structures. This is supplemented by the JSE listing requirements and the King III code of best practice.
- Shareholder meeting agendas can be reasonably complex given the number of agenda items required by the Act, including audit committee elections and resolutions on the provision of financial assistance.
- As recommended by the King III report, the vast majority of large companies now provide shareholders with an AGM vote on the remuneration policy.

Regulatory Perspectives

Each country in the EMEA region has its own regulatory regime, with its own specificities. The European Union provides some level of harmonization of approach within EU Member States, but significant differences remain, even within the EU zone. This summary does not aim to cover all of the many jurisdictions within the region, however, a number of regulatory perspectives that are relevant to ISS policies are outlined below.

Europe

The **European Union** (EU) is an association of 28 European states[2] that have agreed to progressively delegate some competencies to common bodies, the Institutions of the European Union, through several treaties, the last one being the Treaty of Lisbon, effective 2009. The competencies of these Institutions are either political (the European Commission, the European Parliament, the EU Council, and the European Council), monetary (the European Central Bank), audit-related (the European Court of Auditors), or judicial (the Court of Justice of the European Union).

Among these 28 countries, some[3] have further opted to drop their national currency and share a common currency, the Euro, effective since 1999.

The political institutions may adopt acts which can be either binding* or non-binding** for member states, legal entities, and individuals:

- **Regulations***: legislative, binding acts that are immediately and simultaneously enforceable as law in all member states.
- **Directives***: legislative, binding acts that require member states to achieve a particular result without dictating the means of achieving that result. In general, to become effective in a given jurisdiction, a directive needs to be transposed into national law within a specified notice period. Member states have some leeway when adapting the directive's provisions to the national context.
- **Decisions***: binding acts generally targeting and binding one or several recipients only (member state, corporations, or individuals).
- **Recommendations****: non-binding acts that aim at preparing legislation in member states.
- **Opinions****: non-binding acts that are used by institutions to provide their views on a specific topic.

United Kingdom

The regulatory framework in the United Kingdom is established through various parliamentary acts, including the Companies Act 1985, 1989, and 2006, the FCA (previously FSA) Handbook (Listing Rules), the City Code on Takeovers and Mergers, the Financial Services Act 2010, the Insolvency Act 1986 and 2000, the Trustee Act 2000, and the Pensions Act 2008. Remuneration disclosures and requirements for shareholder approval are enshrined in the Enterprise and Regulatory Reform Act 2013 and the Large and Medium-sized Companies and Groups (Accounts and Reports)(Amendment) Regulations 2013.

Due to the U.K's. often self-regulatory approaches in a number of areas, many "soft regulations" are in place in addition to hard-coded legislation. U.K. Company Law and Listing Rules also incorporate E.U. directives, such as the recent Capital Requirements Directives (CRD II-IV).

South Africa

South African companies operate within a legal framework historically influenced by United Kingdom company law. The broad legal environment for companies is thus similar to that in the U.K.

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[2] As of Sept. 30, 2013, EU member states are Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom.
[3] As of Sept. 30, 2013, the Eurozone is composed of Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.

Russia

The Law on Joint Stock Companies (JSC Law) is the main law regulating the activities of joint stock companies in Russia. It provides a basic legal framework for corporate governance matters, notably giving protection and legal recourse to minority shareholders. Originally an adaptation of Western corporate governance laws to the Russian market, it has been regularly amended to keep up with developing trends.

In addition, the Federal Law on the Securities Market codifies provisions formerly scattered among a number of decrees, regulations, and instructions. It expands the powers of the Federal Financial Markets Service (FFMS), Russia's securities commission, regulates periodic disclosure, and modifies the registration process for the issuance and sale of securities by open joint stock companies. The law has toughened restrictions on insider trading and provided detailed obligations of registrars and depositories.

Market Perspectives

Local Corporate Governance codes/best practice guidelines

Many of the current generation of codes of corporate governance best practices stem from an EU action plan of 2003 aimed at modernizing company law and enhancing corporate governance in the European Union. Many EU member states have since then implemented local codes of best practices, largely based on the comply-or-explain approach. As such, most codes comprise a list of recommendations(principles and provisions) that listed companies are encouraged to comply with and, if not, to explain why. Some codes also provide guidance on how the company should implement or interpret the provisions (guidelines) which are advisory only.

The table below lists the main such best practice codes (or similar) that are currently in operation.

Country	Last Updated	Drafted by
Austria	July 2012	Working Group on Corporate Governance
Belgium	March 2009	Corporate Governance Committee
Bulgaria	Feb. 2012	National Corporate Governance Committee
Croatia	2010	Financial Services Supervisory Agency and Stock exchange
Cyprus	Sept. 2012	Stock exchange
Czech Republic	June 2004	Securities Commission
Denmark	May 2013	Committee on corporate Governance, including recommendations made by the stock exchange and the Financial Council
Estonia	Jan. 2006	Stock Exchange and Financial Supervision Authority
Finland	June 2010	Securities Market Association

France[4]	June 2013	Federation of French issuers
Germany	May 2013	Government Commission
Greece	March 2011	Federation of Enterprises
Hungary	Nov. 2012	Stock exchange
Ireland[5]	n/a	n/a
Italy	Dec. 2011	Stock exchange
Latvia	May 2010	Stock exchange
Lithuania	Jan. 2010	Stock exchange
Luxembourg	May 2013	Stock exchange
Malta	Oct. 2005	Financial Services Authority
The Netherlands[6]	Dec. 2008	Corporate Governance Code Monitoring Committee
Poland	Nov. 2012	Stock exchange
Portugal	July 2013	Securities Commission
Romania	Jan. 2009	Stock exchange
Slovakia	Jan. 2008	Stock exchange
Slovenia	Dec. 2009	Stock exchange, Manager's Association of Slovenia, and Association of Supervisory Boards' Members
Spain	May 2006	Special Working Group set up by the Government
Sweden	Jan. 2010	Corporate Governance Board
Switzerland	Feb. 2008	Economiesuisse - Swiss Business Federation
The United Kingdom	Sept. 2012	Financial Reporting Council

Market Constituent Views

[4] There also is a code drafted by the A*ssociation Française de Gestion* (AFG), and updated annually.
[5] Ireland has not adopted a corporate governance code. However, under the Listing Rules of the Irish Stock Exchange, Irish incorporated listed companies on the Main Securities Market are required to apply on a comply-or-explain basis:

- The U.K. Corporate Governance Code (published by the Financial Reporting Council); and
- The Irish Corporate Governance Annex (primary listed companies only).

[6] There also is a Banking Code addressed to Dutch financial institutions.

Many (but not all) European markets follow a comply-or-explain system of corporate governance, whereby best practice recommendations or soft law require that companies either comply with the local corporate governance code recommendations or otherwise explain any deviations. Local corporate governance codes are often authored by bodies that represent a broad cross-section of the business community, that may include corporate issuers as well as investors and other market participants. As a result, issuer views are often at least partially reflected or taken into account in local codes mentioned above.

Regional Policies and Principles

ISS has a number of different policies in place covering the EMEA region, and these are regularly reviewed and updated with input from investors, issuers, and other market constituents.

The policies currently applicable to EMEA cover the following markets:

- Europe (applies to Member States of the European Union (EU) and of the European Free Trade Association (EFTA), with the exception of –U.K. and Ireland)
- U.K. and Ireland
- South Africa
- Russia and Kazakhstan

For all other EMEA markets not covered by one of the specific policies above, the following policy applies:

- ISS EMEA Regional Policy

ISS Global Voting Principles, which can be found here, underpin all ISS policies and apply to all markets in EMEA. In addition, the ISS voting policies and their application by our analysts take into account the diversity in laws, practices, disclosures, customs, and best practice corporate governance codes across EMEA. Such market-specific factors are taken into account in developing our policies.

Further key information about each EMEA policy, including the main markets covered, is summarized below. For a comprehensive understanding of the policies, please refer to the voting guidelines document for each.

ISS European Policy

- In order to reflect factors within the European context, ISS first drafted its current European Policy in 2009, and we update our policy approach regularly to incorporate changes in market standards and practices across the continent, such as the introduction of say-on-pay in a number of markets, and increased standards on board structure and functioning. ISS' European Policy has incorporated relevant market-specific factors, creating a number of market-specific provisions and exceptions reflecting differences between markets, but always retaining a baseline that considers good corporate governance standards.
- Covers most of continental Europe. Coverage is broadly in line with European Union membership, but including Switzerland , Norway, Iceland, and Liechtenstein (not EU Member States) and excluding U.K. and Ireland (EU Member States, but covered by separate policy as below).
- Main markets covered include Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, and Switzerland.
- From 2014, European Policy will also cover the following Eastern European EU Member States (previously under ISS International Policy): Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia.

- Most markets covered by ISS European Policy are developed markets with reasonably high governance standards and expectations, often driven by European Union regulation. However, even European Union legislation can vary widely in its implementation across member states.
- The approach taken by ISS European Policy is to apply the principles of the Policy to all markets covered, but to take relevant market-specific factors into account. Therefore European Policy has a number of areas that are specific to particular markets (for example, taking into account when assessing board independence, legal requirements in Germany for employee representatives on supervisory boards).
- Governance standards and best practices are often (but not always) on a comply-or-explain basis, with best practice recommendations set by different local corporate governance codes or guidelines. Where relevant, ISS takes into account in its analysis the explanations given by companies for any non-compliance.

U.K. and Ireland - NAPF Corporate Governance Policy and Voting Guidelines

- Covers U.K., Ireland, and a number of associated markets (such as the U.K. Channel Islands)
- Uniquely for the U.K., ISS uses the policy and voting guidelines of the National Association of Pension Funds (NAPF), the voice of workplace pensions in the U.K., and representing the views of pension funds, other asset owners and their asset managers. It is based on the U.K. Corporate Governance Code and on internationally accepted best practice principles of corporate governance, and is developed by the NAPF and its members specifically for the U.K. market.
- The corporate governance regime in the U.K. largely operates on a comply-or-explain basis rather than being wholly founded in corporate law. This approach underlies both the U.K. Corporate Governance Code, which is widely accepted by companies as well as supported by investors.

ISS South Africa Policy:

- Covers South Africa only
- Based on EMEA Regional Policy, with additional approaches for voting items and issues that are specific to the South African market.

ISS Russia and Kazakhstan Policy:

- Covers Russia and Kazakhstan only.
- Based on EMEA Regional Policy with additional approaches for voting items and issues that are specific to these two markets.

ISS EMEA Regional Policy:

- Covers all countries in the EMEA region that are not covered by a specific policy. Includes many markets in the Middle East, North Africa, and Eastern Europe.
- The countries currently covered include, but are not limited to, Algeria, Angola, Armenia, Azerbaijan, Bahrain, Bosnia and Herzegovina, Botswana, Egypt, Gabon, Gambia, Ghana, Guinea, Georgia, Israel, Ivory Coast, Jordan, Kenya, Kuwait, Kyrgyzstan, Lebanon, Macedonia, Malawi, Moldova, Montenegro, Morocco, Namibia, Nigeria, Oman, Qatar, Serbia, Tajikistan, Tunisia, Turkey, Turkmenistan, Uganda, United Arab Emirates, Ukraine, Uzbekistan, Zambia, and Zimbabwe.
- Poor disclosure is common in many of these markets and can be particularly problematic for issues related to director elections, approval of related-party transactions, remuneration, ratification of charitable donations, and capital issuances.

- For countries currently covered by the ISS EMEA Regional Policy, opportunities for developing standalone market-specific ISS policies are regularly reviewed, and specific policies are developed as opportunities to do so are identified from any significant developments in local governance practices, company disclosure practices, and relevant legislation.

Conclusion

The EMEA region is an extremely diverse as well as geographically broad area. The three continents of Europe, Middle East, and Africa each in themselves incorporate a large number of different countries, sub-regions, and legal jurisdictions, as well as many languages and business cultures. From a corporate governance perspective the markets range from highly developed to undeveloped.

ISS' voting policies that are applied in the region have been designed to recognize this diversity, and take relevant market-specific factors into account, whilst also applying a framework of good governance practices and policy approaches designed to inform and support investors in their decision-making on voting, and to promote sustainable shareholder value creation through support of responsible corporate practices.