2015 French Equity-Based Compensation

Frequently Asked Questions

Effective for Meetings on or after February 1, 2015
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1. Policy

Equity-based compensation (France)

Generally vote FOR equity-based compensation proposals for employees if the plan(s) are in line with long-term shareholder interests and align the award with shareholder value. This assessment includes, but is not limited to, the following factors:

- The volume of awards transferred to participants must not be excessive: the potential volume of fully diluted issued share capital from equity-based compensation plans must not exceed the following ISS guidelines:

- The potential volume from equity-based compensation plans must not exceed 10 percent of fully diluted issued share capital.
- For companies that refer to the AFEP-MEDEF Code, all awards (including stock options and warrants) to executives shall be conditional upon challenging performance criteria or premium pricing. For companies referring to the Middlenext Code (or not referring to any code) at least part of the awards to executives shall be conditional upon performance criteria or premium pricing. In both cases, free shares shall remain subject to performance criteria for all beneficiaries.

- For large- and mid-cap companies, the company's average three-year unadjusted burn rate (or, if lower, on the maximum volume per year implied by the proposal made at the general meeting) must not exceed the mean plus one standard deviation of its sector but no more than one percentage point from the prior year sector cap;

- The plan(s) must be sufficiently long-term in nature/structure: the minimum vesting period must be no less than three years from date of grant; and

- The awards must be granted at market price. Discounts, if any, must be mitigated by performance criteria or other features that justify such discount.

If applicable, performance standards must be fully disclosed, quantified, and long-term, with relative performance measures preferred.

2015 burn rate caps by sector (France)

The 2015 burn rate caps by sector are the following:

GICS	SECTOR	Mean	Standard Deviation	2014 Burn Rate Cap
1010	ENERGY	0.44%	0.44%	0.87%
1510	MATERIALS	0.37%	0.19%	0.56%
2010-2030	INDUSTRIALS	0.53%	0.45%	0.98%
2510-2550	CONSUMER DISCRETIONARY	0.67%	0.68%	1.34%
3010-3030	CONSUMER STAPLES	0.14%	0.10%	0.24%
3510-3520	HEALTHCARE	0.17%	0.21%	1.02%
4010-4040	FINANCIALS	0.34%	0.40%	0.75%
4510-5010	TECHNOLOGY & TELECOM	0.74%	0.81%	1.55%
5510	UTILITIES	0.30%	0.31%	0.62%

2. Frequently asked questions

General

1) Which provisions of the European policy continue to apply to French companies?

French companies are subject to most of ISS' European Compensation Guidelines. In particular, the following provisions apply:

- No executives may serve on the compensation committee;
- The plan(s) must be sufficiently long-term in nature/structure (e.g. vesting period of at least two years; no phased vesting shorter than two years – provision applicable to <u>all</u> beneficiaries of <u>all</u> types of instruments);
- Discounts, if any, must be mitigated by performance criteria or other features that justify such discount (provision applicable to <u>all</u> beneficiaries of options or warrants);
- Performance standards must be fully disclosed, quantified, and long-term (i.e. performance period of several consecutive years – not multiple annual performance periods), with relative performance measures preferred;
- No stock options, or similarly structured equity-based compensation, should be granted to non-executive and non-employee directors.

ISS will recommend a vote AGAINST a company's compensation-related proposal if such proposal fails to comply with any one of the rules above.

2) Which policy provisions applicable to French companies on equity-based compensation can trigger a negative recommendation?

ISS will issue a negative recommendation if a company proposal to grant equity-based compensation is in breach of at least one of the French-specific provisions (potential volume from compensation plans, performance criteria, burn rate) taken individually.

In addition, ISS will issue a negative recommendation if a company proposal to grant equity-based compensation is in breach of at least one of the remaining provisions of ISS' European Compensation Guidelines (compensation committee, vesting period, discount, performance standards/period) taken individually.

3) Does this policy apply to savings-related share issuances?

No. Savings-related share issuances to current or former employees or executives are not covered by this policy. Such authorities are subject to a separate limit in terms of total holdings under savings-related share purchase plans set at 10 percent of the capital. No other provision applies.

Volume Policy

4) How does ISS calculate the company's potential volume from equity-based compensation plans?

The potential volume from equity-based compensation plans is calculated as follows:

Potential volume =	# of options outstanding + # of free shares outstanding + # of warrants outstanding + total unused volume under all authorizations still outstanding + total volume under all proposed authorizations

where:

- outstanding = latest figures publicly available at the time of analysis;
- options = options as defined under French law;
- free shares = free shares as defined under French law; and
- warrants = any type of warrants (giving right to acquire shares of the company) allowed under French law (e.g. BSA, BCE, BSPCE) granted to executives or employees of the group.

If, for any existing plan, the performance conditions provide that the number of instruments (options, free shares, or warrants) finally awarded may exceed 100 percent of the number of instruments granted at the beginning of the plan, ISS will include the maximum number of instruments that can be finally awarded.

5) How does ISS calculate the company's fully diluted share capital?

Fully diluted share capital =	total shares outstanding + # of options (outstanding or proposed) to be settled in new shares + # of free shares (outstanding or proposed) to be settled in new shares + # of warrants (outstanding or proposed) to be settled in new shares + potential shares from other securities convertible/redeemable in new shares

6) Does ISS exclude underwater options from the calculation of the potential volume?

In principle, no, as the options' life expectancy in France may reach up to 10 years and sudden share price movements cannot be excluded. However, in a limited number of cases where (i) the options' strike price lies far above the trading price and (ii) the options' life is ending within the year, ISS may consider excluding these options from the calculation on an exceptional basis.

Burn Rate Policy

7) To which companies does the burn rate policy apply?

The burn rate policy is applicable to all French companies of Euronext's SBF 120 index, which comprises the most traded large- and mid-cap companies in France.

8) How does ISS calculate a company's historical burn rate?

The annual burn rate (based on company fiscal year) is calculated as follows:

$$\text{Annual burn rate} = \frac{\#\text{ of options granted} + \#\text{ of shares granted} + \#\text{ of warrants granted}}{\text{total shares outstanding at the end of the fiscal year}}$$

where:

- granted = granted at the very beginning of a plan (i.e. before application of performance criteria or cancellations) set up during the fiscal year;
- options = options as defined under French law;
- shares = free shares as defined under French law; and
- warrants = any type of warrants (giving right to acquire shares of the company) allowed under French law (e.g. BSA, BCE, BSPCE) granted to executives or employees of the group.

For any plan, if the performance conditions of the plan provide that the number of instruments finally awarded may exceed 100 percent of the number of instruments granted at the beginning of the plan, ISS will include the maximum number of instruments that can be finally awarded.

The company's three-year average burn rate is calculated as the average of the annual burn rates for the last three completed fiscal years at the time of the analysis.

9) In practice, how will ISS calculate a company's three-year average burn rate in 2015?

The company's three-year average burn rate is calculated as the average of the annual burn rates for the last three completed fiscal years at the time of the analysis. In practice, for a company with a fiscal year ending on Dec. 31, this means that for a resolution proposed at the annual general meeting in April or May 2015, ISS will look at the annual burn rates for the fiscal years ended on Dec. 31, 2012, Dec. 31, 2013, and Dec. 31, 2014.

ISS will only look at a company commitment or maximum volume per year implied by the proposal made at the general meeting if a company's historical average burn rate for the fiscal years ended on Dec. 31, 2012, Dec. 31, 2013, and Dec. 31, 2014, is in excess of the sector cap.

10) How does ISS calculate the applicable burn rate cap?

ISS policy uses the Global Industry Classification Standard (GICS®), one of the most commonly used industry classifications in the world developed by MSCI and Standard & Poor's, in order to group French companies of the SBF 120 index by sector. Each group is composed of between five and 25 companies, with an average of 12.3 companies per sector.

The burn rate cap applicable for general meetings to be held between Feb. 1, 2015, and Jan. 31, 2016, ("2015 burn rate cap") is calculated as follows:

Burn rate cap for sector S =	companies' average three-year burn rate + standard deviation

where:

- S = individual GICS sector (2-digit GICS code), except for "Information Technology" and "Telecommunication Services" which are combined;
- companies = companies of the SBF 120 and classified in sector S as of Dec. 1, 2014;
- three-year burn rate = latest published three-year burn rate as of Dec. 1, 2014.

Based on this calculation, the 2015 burn rate caps by sector are the following:

GICS	SECTOR	Mean	Standard Deviation	2014 Burn Rate Cap
1010	ENERGY	0.44%	0.44%	0.87%
1510	MATERIALS	0.37%	0.19%	0.56%
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ISS will review the constituents of the SBF 120 and their GICS sector classification and recalculate the burn rate caps above on a yearly basis. ISS will publish the next updates on its website in December 2015.

11) What does ISS mean by "no more than one percentage point from the prior year sector cap"?

If a given sector has a 2015 burn rate cap of 1.25 percent, ISS policy provides that the 2016 burn rate cap shall not exceed 2.25 percent, even if the normal calculation of the sector's cap shows a result greater than 2.25 percent. This feature of ISS' policy targets artificial increases that could result from a concerted action within a given sector and the potential impact of windfall effect due to a bear market with discounted trading prices in the sector (and thus more equity grants needed for the same value transfer).

12) Who can I contact if I disagree with the GICS classification?

ISS does not classify companies into the GICS codes. Please contact Standard & Poor's at +1-800-523-4534 if you believe that a company has been misclassified.

13) What action may ISS take into account if a company does not meet the historical three-year average burn rate policy?

A company may commit to a prospective annual burn rate equal to no more than its sector's burn rate cap applicable as of the date of the general meeting to vote on the proposal to grant equity-based compensation.

The company would need to publicly notify shareholders of its commitment by including a maximum annual burn rate (including all types of instruments included in the burn rate calculation) either:

- in the text of the resolution to be approved by the general meeting, as published in the BALO; or
- in any other document available on the company's website at least 21 days before the meeting and for as long as the resolution to be approved remains valid.

Making a commitment does not guarantee a positive recommendation if the proposed resolution is not in line with any other feature of ISS' policy regarding equity-based compensation. If a prior burn-rate commitment was modified, has been violated mid-stream, or was no longer available on the company's website, absent justifiable reasons, this will be considered an egregious remuneration practice as defined under ISS' European policy on compensation-related voting sanctions.

14) How does ISS define the "maximum volume per year implied by the proposal made at the general meeting"?

If the company's historical three-year average burn rate is in excess of the applicable burn rate cap, ISS will still look at the volume proposed under the resolution to be approved by the general meeting. However, in the absence of explicit company commitment to a prospective annual burn rate in line with its applicable sector cap, ISS will assume that all outstanding and proposed resolutions to grant equity-based compensation instruments could be used within one year. The total volume under all these resolutions will constitute the maximum volume per year implied by the proposal made at the general meeting.

Therefore, if the volume proposed under the resolution to be approved by the general meeting, together with the total volume under all other outstanding or proposed resolutions to grant equity-based compensation instruments, remains below the applicable burn rate cap, ISS will consider that the company has made a commitment to a prospective annual burn rate in line with ISS policy. Otherwise, ISS will consider that the proposal is not in line with ISS policy.

Ex 1: Company A (Consumer Discretionary)

Company A's three-year average burn rate reaches 2.5 percent, and is therefore in excess of the applicable burn rate cap of 1.35 percent for the Consumer Discretionary sector. There is no public commitment on a prospective annual burn rate.

However, at the 2015 annual meeting, Company A is proposing:

- *a resolution to grant options for a maximum volume of 0.5 percent of the capital;*
- *a resolution to grant free shares for a maximum volume of 0.5 percent of the capital; and*
- *to cancel any other outstanding resolutions to grant equity-based compensation instruments.*

As a result, Company A shows a maximum volume per year implied by the proposals made at the general meeting of 1 percent, which is below the applicable burn rate cap of 1.35 percent for the Consumer Discretionary sector. Therefore, the company's proposals are in line with ISS policy regarding the burn rate.

Ex 2: Company B (Technology & Telecom sector)

Company B's three-year average burn rate reaches 3 percent, and is therefore in excess of the applicable burn rate cap of 1.55 percent for the Technology & Telecom sector. There is no public commitment on a prospective annual burn rate.

At the 2015 annual meeting, Company A SHOULD THIS BE COMPANY B???? is proposing a resolution to grant options for a maximum volume of 1 percent of the capital. However, at the 2014 general meeting, shareholders had approved a resolution to grant free shares for a maximum volume of 2 percent of the capital, of which 1.7 percent of the capital has not yet been granted.

As a result, Company B shows a maximum volume per year implied by the proposal made at the general meeting of 2.7 percent, which remains above the applicable burn rate cap of 1.55 percent for the Technology & Telecom sector. Therefore, the company's proposal is not in line with ISS policy regarding the burn rate.

15) If a company assumes an acquired company's equity-compensation plans in connection with a merger, will ISS exclude these plans in the three-year average burn rate calculation?

ISS will exclude these instruments for the annual burn rate for the year when the merger took place only if the company discloses the number of assumed instruments in connection with the merger in the dedicated section of its annual financial report or registration document.

Performance Criteria Policy

16) Who does ISS define as executives?

Following a consensus among institutional shareholder respondents to ISS' 2011-2012 Comment Period, ISS defines executives as all executive corporate officers and all members of the executive committee (or an equivalent body) for both companies with one-tiered board structure and companies with two-tiered board structure.

In addition, any board member who is classified as a non-executive by the company but is entitled to a remuneration package in line with that of a company executive will be considered an executive under ISS' policy.

17) Does ISS require performance criteria for awards to employees who are not executives?

As mentioned in ISS' policy, free shares shall remain subject to performance criteria for all beneficiaries, including employees who are not executives. This requirement applies to all French companies. On the other hand, there is no specific requirement in ISS policy for performance criteria to be attached to stock options awarded to employees who are not executives.

18) What is the level of information expected to be disclosed on the chosen performance criteria?

In order to evaluate performance criteria, full disclosure on the performance requirements is needed. This can only be achieved when, for a given criterion, clear figures are provided on the minimum and maximum thresholds under the performance schedule, as well as any intermediate threshold. Disclosure is also necessary on the proportion of original grants that would vest for each threshold reached.

In addition, for relative performance criteria, disclosure on the chosen index or on the constituents of the chosen peer group is key to an informed voting decision.

Ex 1: Relative performance against a peer group

Perf. thresholds vs. peer group	*Final awards as % of original grants*	*Peer group*
> 8th decile	100%	12 companies: Company A, Company B, Company C, Company D, Company E, Company F, Company G, Company H, Company I, Company J, Company K, Company L.
8th decile	90%	
7th decile	75%	
6th decile	60%	
5th decile	40%	
≤ 4th decile	0%	

Ex 2: Absolute performance criterion

Perf. thresholds as % of objective	*Final awards as % of original grants*	*Objective*
110% and over	200%	xx million
between 90% and 110%	in proportion between 0% and 200%	
90%	0%	
< 90%	0%	

In addition, the weight of each criterion and the performance period should be clearly indicated.

Explanations on the exact method to assess the objective over the given performance period is a necessary element to establish that the chosen criterion is sufficiently long-term (at very least two years).

19) What happens if one of the performance objectives is not yet publicly disclosed?

Transparency on the link between executive pay and performance is key, including for the plans that may be implemented with a new resolution. However, in certain cases, the company may provide all the relevant disclosure except for the actual performance objective. In such cases, ISS may still accept this level of disclosure, provided that the company has historically published the actual performance objectives ex-post (or publicly commits to do so).

ISS also understands that the board may not have yet decided on the final terms of future plans in advance of the general meeting. However, the nature of the performance criteria to be used for these future plans and/or a statement that the company intends to pursue its current policy in terms of performance criteria represent critical information for shareholders. Without such information, ISS will consider that the disclosure on performance criteria is insufficient. On the other hand, if such information is available, ISS may review the company's track record in terms of disclosure on performance criteria. If it is company practice to provide comprehensive disclosure, ISS may adopt a lenient approach and monitor that the company continues to provide sufficient disclosure after the terms of the plans have been decided by the board.

20) What is ISS' stance on the choice of performance criteria?

As such, the nature of the performance criteria chosen by a company is not a factor that will determine ISS recommendations on a given resolution.

This being said, one of ISS' five Global Principles on Compensation recommends appropriate pay-for-performance alignment with emphasis on long-term shareholder value and, as mentioned in its European Compensation Guidelines, ISS prefers relative performance measures.

In addition, the AFEP-MEDEF Code recommends that companies disclose a well-explained general policy for the award of the options and free shares. Providing clear disclosure on the rationale for the company's choices in terms of performance criteria as well as on their consistency with the company's strategy is also considered a determining factor.

21) What is ISS' method to assess that the awards are conditional upon "challenging" performance criteria?

Provided that the necessary disclosure is available, ISS reviews each performance criterion individually on a case-by-case basis, and takes into account any company guidance, analysts' consensus, or historical data publicly available.

Although each company and each criterion is different, the underlying principle of requiring challenging criteria remains the same: no equity-based compensation awards to executives should be guaranteed.

Furthermore, while there is no unique definition, certain recurring patterns of challenging performance requirements have been identified.

Ex:

- *For relative measures based on company ranking against a peer group: "no pay below median" performance;*
- *For relative measures against an index: outperforming the index;*
- *For absolute measures: objective at least equal to the company guidance; and*
- *Premium pricing on stock options, i.e. significant increase in share price over a given period.*

This being said, if the terms of the plan combine several criteria, ISS reviews the terms of the calculation used to determine the final number of awards. If the calculation provides that the performance achieved for one criterion may offset a lower performance for another criterion, ISS will review the overall stringency of the performance package and may consider the overall performance required is not sufficiently stringent even if each criterion taken individually is challenging.

22) Does ISS look at the company's track record in terms of performance criteria?

In cases where (i) the company provides the minimum forward-looking information required (nature of performance criteria or intention to pursue its current policy) but (ii) the final terms of future plans have not been decided in advance of the general meeting or the company is introducing a new performance criterion for which information is not yet available, ISS may review the company's track record in terms of use of challenging performance criteria. To that purpose, full disclosure on past performance criteria should be available.

23) For companies referring to the Middlenext Code, what is the minimum "part of the awards" to executives that needs to have performance criteria or premium pricing?

For companies referring to the Middlenext Code (or not referring to any code), ISS policy provides that at least part of the awards to executives shall be conditional upon performance criteria or premium pricing, in line with the requirements of the Middlenext Code. ISS will review a company's equity-based compensation policy on a case-by-case basis in order to determine whether the number of awards with performance criteria or premium pricing is significant enough. Please note that ISS policy recommends that all free shares are subject to performance criteria for all beneficiaries at all companies.

Note: The questions and answers in this FAQ are intended to provide general guidance regarding the way in which ISS' Global Research Department will analyze certain issues in the context of preparing proxy analyses and determining vote recommendations for French companies. However, these responses should not be construed as a guarantee as to how ISS' Global Research Department will apply its benchmark policy in any particular situation.

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