



Georgeson's 2017 Proxy Season Review

Bridging the gap between
issuers and investors

UK
FRANCE
NETHERLANDS
GERMANY
SWITZERLAND
ITALY
SPAIN

| CERTAINTY | INGENUITY | ADVANTAGE |

Georgeson

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Introduction

We are presenting here a thorough analysis of seven markets where Georgeson has a widespread client base, and where we are privileged to work closely with many of the leading issuers. Our local client support, thorough investor engagement and deep market expertise allow us to highlight the issues and trends which will be of interest to both companies and investors.

As the leading global proxy solicitor, shareholder engagement firm and corporate governance advisor, Georgeson works hard to ensure that our clients understand the critical issues, trends and personalities which affect and motivate their shareholders, so that they do not become a statistic highlighted in this or any other report.

Over the past year we have seen and supported an ever increasing number of companies who are spending significant time with the governance teams at their institutional investors. Increased shareholder activism has seen companies place a greater emphasis on engaging with their long-term investors. The growth of passive investors, who track indexes and cannot sell their holdings, has focused attention on their governance teams and how they exercise their voting rights. Finally, the adoption of the revised European Shareholder Rights Directive has highlighted the additional vote requirements that are in the offing, particularly in European markets that do not yet have annual votes on remuneration (like Germany and the Netherlands).

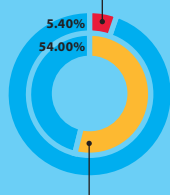
We hope that our report will give you greater insight into these markets both in terms of the general trends and of the particular issues that have arisen during the last AGM season. Georgeson remains available to help you with any more specific queries. For any support needed at your next general meeting, please do not hesitate to let us apply our market intelligence, which will help you avoid any possible pitfalls raised both by local developments and complex international trends that can affect a dispersed shareholder base.

A special thank you to all our colleagues across Europe who contributed to the production of this document, and in particular Daniele Vitale, our Corporate Governance Manager, who edited the report.

Key Figures

UNITED KINGDOM (FTSE 100)

RESOLUTIONS WITH
OVER 10% OPPOSE



COMPANIES WITH
OVER 10% OPPOSE

AVERAGE QUORUM

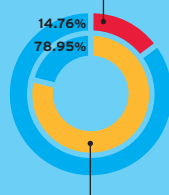
73.40%

REJECTED BOARD
PROPOSALS

2

SWITZERLAND (SMI)

RESOLUTIONS WITH
OVER 10% OPPOSE



COMPANIES WITH
OVER 10% OPPOSE

AVERAGE QUORUM

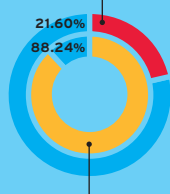
66.70%

REJECTED BOARD
PROPOSALS

10

FRANCE (CAC 40)

RESOLUTIONS WITH
OVER 10% OPPOSE



COMPANIES WITH
OVER 10% OPPOSE

AVERAGE QUORUM

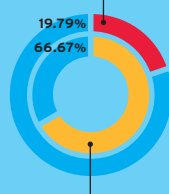
65.40%

REJECTED BOARD
PROPOSALS

7

ITALY (FTSE MIB)

RESOLUTIONS WITH
OVER 10% OPPOSE



COMPANIES WITH
OVER 10% OPPOSE

AVERAGE QUORUM

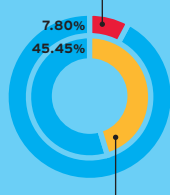
66.51%

REJECTED BOARD
PROPOSALS

0

NETHERLANDS (AEX)

RESOLUTIONS WITH
OVER 10% OPPOSE



COMPANIES WITH
OVER 10% OPPOSE

AVERAGE QUORUM

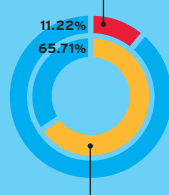
72.14%

REJECTED BOARD
PROPOSALS

0

SPAIN (IBEX 35)

RESOLUTIONS WITH
OVER 10% OPPOSE



COMPANIES WITH
OVER 10% OPPOSE

AVERAGE QUORUM

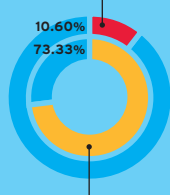
71.70%

REJECTED BOARD
PROPOSALS

1

GERMANY (DAX)

RESOLUTIONS WITH
OVER 10% OPPOSE



COMPANIES WITH
OVER 10% OPPOSE

AVERAGE QUORUM

60.00%

REJECTED BOARD
PROPOSALS

4



UK





UK Highlights

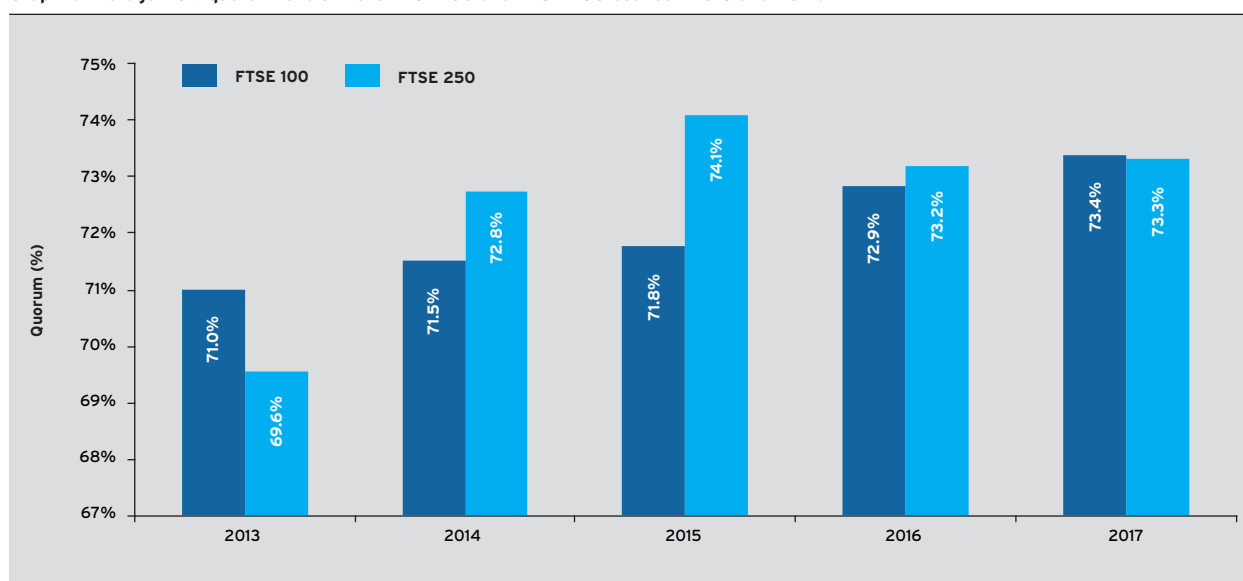
- The average quorum for FTSE 100 companies during the 2017 AGM season was 73.4% compared to 72.9% in 2016.
- In our FTSE 100 sample two companies saw a board-proposal rejected by shareholders during the 2017 AGM season: Pearson and Old Mutual.
- In the FTSE 250 five companies saw a board-proposed resolution rejected by shareholders during the 2017 AGM season: Centamin, Crest Nicholson Holdings, Tullow Oil, Riverstone Energy Limited, and AA.
- In our FTSE 100 sample, the most commonly contested resolutions were authorities to issue shares with and without pre-emptive rights.
- The second most commonly contested resolutions were director elections. The third most commonly contested resolutions were proposals to approve the remuneration report.
- During the 2017 AGM season 18 companies in our FTSE 100 sample received less than 80% support on their remuneration report, compared to only 12 companies in the 2016 AGM season.
- During the 2017 AGM season 20 companies out of our FTSE 100 sample received at least one negative recommendation from ISS, and 29 companies received at least one negative recommendation from Glass Lewis.

1. VOTING IN THE UNITED KINGDOM

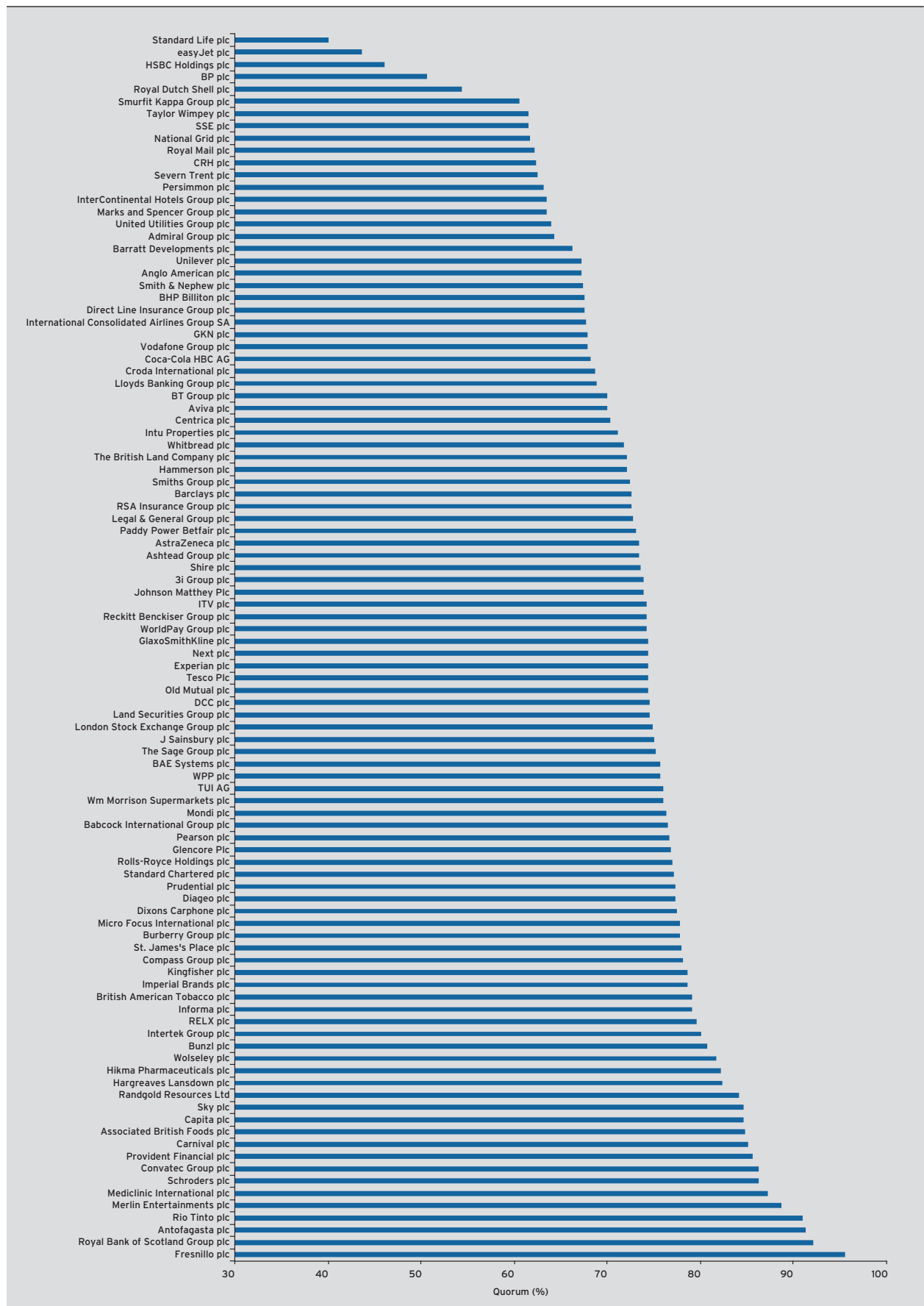
1.1 Quorum overview

Georgeson has reviewed the quorum levels of FTSE 100 companies over the past five years. This year's review includes the companies that were part of the index as of the 1st January 2017, and which have held their AGMs between 1 August 2016 and 31 July 2017. In the FTSE 100 the average quorum for the reporting period was 73.4%. This is a slight increase compared to the average 2016 quorum, and a 2.4 percentage point increase over quorum levels in 2013. Meanwhile in the FTSE 250, the average quorum was 73.3% in 2017, up 3.7 percentage points from the 2013 quorum level.

Graph 1: Average AGM quorum levels in the FTSE 100 and FTSE 250 between 2013 and 2017.



Graph 2: Quorum levels at FTSE 100 companies during the 2017 reporting period.



1.2 Rejected resolutions

FTSE 100

Within the reporting period, two companies had two management-proposed resolutions rejected by shareholders: Pearson plc and Old Mutual plc.

Pearson

At Pearson's 2017 AGM the advisory vote on the Directors' Remuneration Report failed to achieve support from shareholders, with 34.4% of shareholders supporting the proposal. Following the meeting the board stated¹ that they "were disappointed that the advisory vote for this year's remuneration report was not passed and that, although passed, there was a significant minority vote against both our remuneration policy and the re-election of our remuneration committee chair, Elizabeth Corley. Naturally, we acknowledge this feedback and thank those shareholders who have already spoken with us and explained their reasons for not supporting the relevant resolutions."

According to the Telegraph² "two-thirds of shareholders rejected the Company's remuneration report at its AGM after Mr Fallon received a £343,000 bonus, equivalent to a 20pc pay rise, despite having presided over its worst 12 months in nearly half a century on the stock exchange".

We note that both ISS and Glass Lewis recommended against this proposal. IVIS issued an amber alert on the remuneration report, while PIRC recommended in favour of the proposal (while opposing the remuneration policy).

Old Mutual

At the Old Mutual's 2017 AGM the proposal to issue shares without pre-emptive rights failed to gain the 75% support necessary for the resolution to pass, with a vote in favour of 74.4% (compared to 83.5% support at the 2016 AGM).

Following the meeting the board stated³ that "whilst the Company is disappointed with this outcome, as explained in the AGM circular the Directors had no present intention to allot any shares pursuant to this resolution. Whilst both these resolutions are considered routine for listed companies in the UK, the Company is aware that certain overseas institutional investors, mainly in South Africa, have a policy of not supporting them. The Company will continue to engage with those shareholders to improve understanding and, if possible, allay any such concerns for the future".

We note that ISS, Glass Lewis, PIRC and IVIS raised no concerns over this proposal.

FTSE 250

Among FTSE 250 companies five companies saw management-proposed resolutions rejected by shareholders during the reporting period: Centamin, Crest Nicholson Holding, Tullow Oil, Riverstone Energy and AA.

Centamin

At Centamin's 2017 AGM a resolution to re-elect Trevor Schultz failed to gain a majority vote, with 34.9% of shareholders voting in favour of his re-election. Following the meeting the board stated⁴ that "the Company has considered the reasons for the votes [...] and believes that these relate primarily to the appointment of Trevor Schultz to the remuneration committee in September 2016 [...]. An explanation of this appointment, and the resulting non-compliance with the Code due to Trevor Schultz being considered by the Code to be non-independent, was provided in the 2016 Annual Report. However, the Company recognises that this explanation has not been accepted by a number of proxy advisory groups and shareholders."

¹ <http://www.londonstockexchange.com/exchange/news/market-news/market-news-detail/PSON/13216445.html>

² <http://www.telegraph.co.uk/business/2017/05/05/pearson-plans-news-round-job-cuts-chief-executive-john-fallon/>

³ <http://www.londonstockexchange.com/exchange/news/market-news/market-news-detail/OML/13239126.html>

⁴ <http://www.londonstockexchange.com/exchange/news/market-news/market-news-detail/CEY/13166128.html>

Despite the vote result, the board re-appointed Mr Schultz to the Board. “The nomination committee, in the absence of Trevor Schultz, has recommended the re-appointment of Trevor Schultz to the Board. In turn, the Board has unanimously resolved to appoint Trevor to the Board as a non-executive director, with immediate effect. Trevor will be re-appointed to his existing roles as chairman of the HSES committee and member of the nomination committee but will not re-join the remuneration committee. The Board has taken this decision in light of the vital role that Trevor plays for the Company, bringing his deep technical knowledge to assist the Board’s oversight of the Company’s operations and chairing the HSES committee which is responsible for making critical recommendations to the Board on all matters in connection with issues of the environment, workplace health and safety and the sustainable engagement with communities and stakeholders”.

We note that ISS and Glass Lewis voted against this proposal, while PIRC and IVIS raised no concerns.

Crest Nicholson Holdings

At Crest Nicholson’s 2017 AGM the advisory vote on the Directors’ Remuneration Report failed to achieve majority support from shareholders, with 49.1% voting in favour.

Following the meeting the Board stated⁵ that “whilst we note that our Remuneration Policy continues to be well supported with a 96% in favour vote, we are disappointed the advisory vote for this year’s remuneration report was not carried. We understand from dialogue with shareholders ahead of the AGM that the main area of concern relates to the profit before tax per share (the ‘PBT Element’) targets for the 2017-2019 LTIP which makes up 50% of the performance condition. As stated previously, the Board expects the rate of profit growth will remain robust but not at levels seen in recent years due to tough comparators, additional investment in land, examining approaches to offsite manufacture and a new division required to support our stretching annual growth targets of 4,000 new homes and £1.4 billion of sales by 2019”.

We note that ISS and PIRC recommended a vote against, while Glass Lewis recommended a vote in favour. IVIS issued an amber alert on the remuneration report.

Tullow Oil

At Tullow Oil’s 2017 AGM the resolution to issue shares without pre-emptive rights in connection with an acquisition or other capital investment failed to achieve the 75% support required for the resolution to pass. At the time the Company did not provide comments in relation to the resolution⁶.

We note that ISS and PIRC recommended a vote against, while Glass Lewis was supportive of the resolution. IVIS issued a red alert on the proposal.

Riverstone Energy Limited

At Riverstone Energy’s 2017 AGM, a proposal to amend the company’s articles of association failed to achieve the 75% vote in favour required to pass the resolution, with 57% of shareholders supporting the proposal. Some proxy advisors had raised concerns that under the proposed changes the Company would no longer require shareholder approval for issuing shares.

We note that ISS recommended a vote against, while IVIS raised an amber alert on the proposal. PIRC and Glass Lewis recommended a vote in favour.

AA

At AA’s 2017 AGM the resolution to issue shares without pre-emptive rights achieved a 64.2% vote in favour, which fell short of the 75% support required for the resolution to pass.

⁵ <http://www.londonstockexchange.com/exchange/news/market-news/market-news-detail/CRST/13169369.html>

⁶ <http://www.londonstockexchange.com/exchange/news/market-news/market-news-detail/TLW/13205689.html>

Following the meeting the board stated⁷ that “a process of shareholder consultation has commenced and we have been informed that some significant shareholders generally oppose share issuances with pre-emptive rights above 33% and without pre-emptive rights above 5% and therefore this vote against is not specific to the AA”.

We note that ISS, Glass Lewis, and IVIS raised no concerns surrounding the proposal, while PIRC recommended shareholders vote against the proposal.

1.3 Withdrawn resolutions

Imperial Brands

At its 2017 AGM Imperial Brands withdrew its proposed remuneration policy. According to the Guardian⁸ the new policy would have had the effect of increasing the CEO’s pay from £5.5m, to a potential £8.5m a year, from increased bonus opportunities.

In an announcement⁹ weeks before the 2017 AGM the company stated that “following consultations with shareholders, the Company announces that it no longer intends to seek shareholders’ approval for the Proposal at the AGM and that the Directors’ Remuneration Policy and its associated metrics as approved by shareholders at the AGM held in 2015 will continue to apply. [...] The Board continues to believe that revising the policy is necessary for retaining and attracting the right calibre of talent to ensure the continued sustainable growth of the business and we will re-engage with shareholders to reach a consensus on this important issue.”

Micro Focus International

Micro Focus International plc withdrew a resolution to disapply pre-emption rights for up to 10% of share capital in connection with an acquisition or specified capital investment¹⁰. This proposal was in addition to the traditional requests for a 5% authority for general purposes and a 5% authority for an acquisition or specified capital investment. This would have exceeded the limits recommended by the Pre-emption Group’s Statement of Principles (see section 1.4.1).

Diageo

In April 2017, Emma Walmsley was appointed Group CEO of GlaxoSmithKline (after serving as CEO of GSK’s Consumer Healthcare division). Upon her appointment, she stood down from her non-executive position at Diageo¹¹ to focus on her new CEO role. Therefore the resolution proposing her re-election was withdrawn from the Diageo AGM notice of meeting.

HSBC Holdings

Paul Walsh, a non-executive director of HSBC since January 2016 stepped down from the Board prior to the company’s 2017 AGM to focus on “his other commitments”¹². Mr. Walsh, who also chairs the board of Compass Group plc, served on a total of five other public company boards.

1.4 Contested resolutions

Among our sample of FTSE 100 companies that held their AGMs during the reporting period, 54 companies saw at least one management-proposed resolution receive more than 10% shareholder opposition (compared to 67 in 2016). The total number of resolutions that received over 10% opposition amounted to 119 (including the rejected resolution discussed in section 1.2), compared to 120 in 2016.

⁷ <http://www.londonstockexchange.com/exchange/news/market-news/market-news-detail/AA/13254105.html>

⁸ <https://www.theguardian.com/business/2017/jan/26/imperial-brands-shareholders-pay-rise-executive-pay-bonuses>

⁹ <http://www.londonstockexchange.com/exchange/news/market-news/market-news-detail/IMB/13107831.html>

¹⁰ <http://tools.morningstar.co.uk/tsweu6nqxu/globaldocuments/document/rnsNewsItem.aspx?DocumentId=373204741726697>

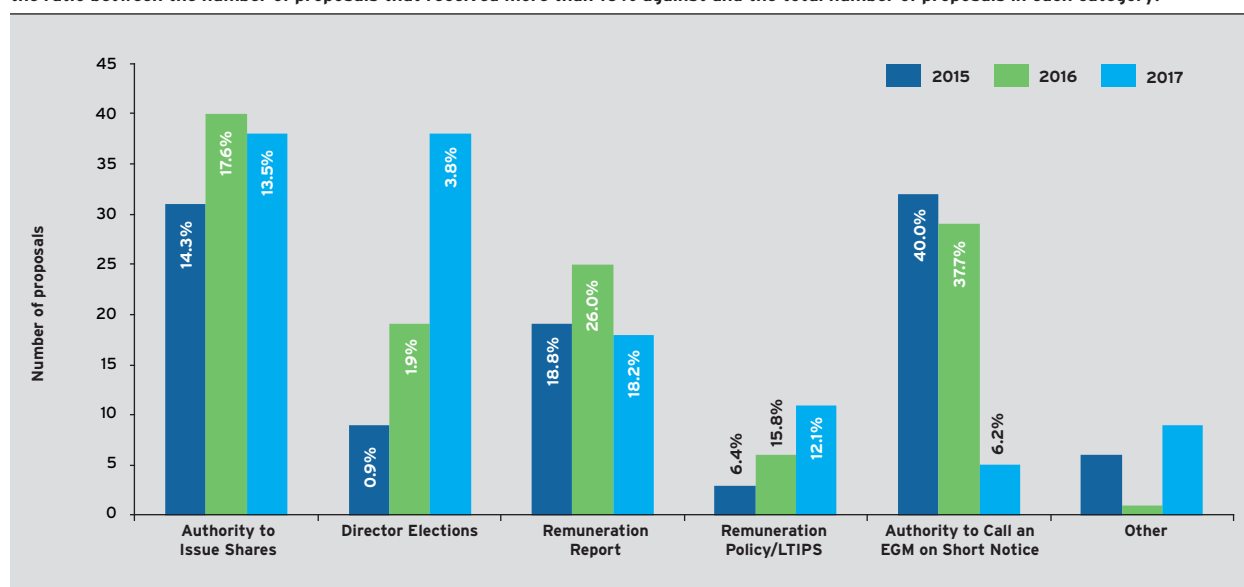
¹¹ <http://www.londonstockexchange.com/exchange/news/market-news/market-news-detail/DGE/12975618.html>

¹² <http://www.londonstockexchange.com/exchange/news/market-news/market-news-detail/HSBA/13200843.html>

In the UK resolutions can be either ordinary¹³ or special¹⁴. Ordinary resolutions require a simple majority of votes cast, while special resolutions require a 75% majority. Whether a resolution must be proposed as a special resolution is defined in the Companies Act. However, in some cases institutional investor bodies expect a resolution to be put forward as a special resolution even though this is not required by law¹⁵.

In our FTSE 100 sample, the most commonly contested resolutions were authorities to issue shares with and without pre-emptive rights. Authorities with pre-emptive rights are proposed as ordinary resolutions while authorities to issue shares without pre-emptive rights are proposed as special resolutions. The second most commonly contested resolutions were director elections. While the third most commonly contested resolutions were remuneration report votes.

Graph 3: Number of resolutions which received more than 10% against votes in the FTSE 100 (by resolution type). The percentages represent the ratio between the number of proposals that received more than 10% against and the total number of proposals in each category.



1.4.1 Authorities to issue shares

Authorities to issue shares with pre-emptive rights¹⁶ are proposed as ordinary resolutions (requiring a simple majority), while authorities to issue shares without pre-emptive rights¹⁷ are proposed as special resolutions (requiring 75% approval). Many institutional investors and proxy advisors refer to the Investment Association's Share Capital Management Guidelines¹⁸ to assess authorities with pre-emptive rights, and to the Pre-emption Group's Statement of Principles to assess authorities without pre-emptive rights.

The revised Pre-emption Group Statement of Principles published in March 2015¹⁹ allows a company to undertake non-pre-emptive issuances of up to 10% of the share capital (in two separate resolutions²⁰), as long as the company specifies that 5% of the authority will only be used in connection with an acquisition or specified capital investment. The graph below shows that the number of FTSE 100 companies seeking only a 5% authority (as the previous Principles recommended) has decreased from 78 in 2015 (first three quarters), to 39 in 2016 (first three quarters), to 29 in 2017 (first three quarters).

¹³ <http://uk.practicallaw.com/4-107-6940>

¹⁴ <http://uk.practicallaw.com/9-107-7287>

¹⁵ For instance, in relation to authorities to repurchase own shares, the Investment Association states that "companies should seek authority to purchase their own shares whether on market or off market by special resolution and not simply an ordinary resolution as is allowed by Sections 694 and 701 of the Companies Act 2006". See section 2.1.1 here: <https://www.ivas.co.uk/media/12250/Share-Capital-Management-Guidelines-July-2016.pdf>

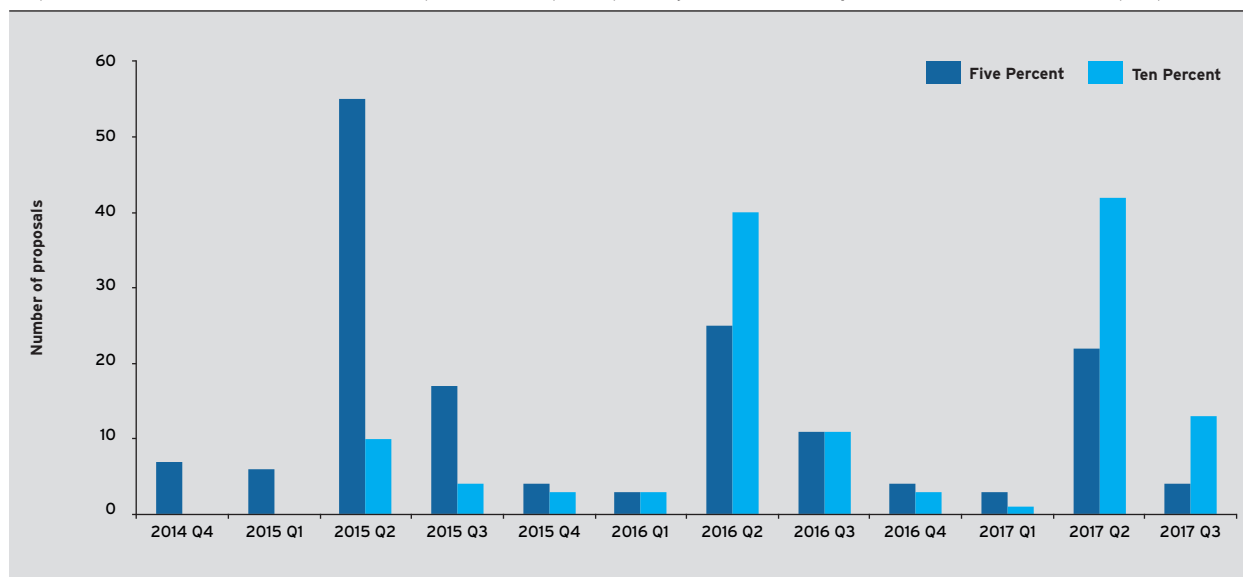
¹⁶ Companies Act 2006, s. 551: <http://www.legislation.gov.uk/ukpga/2006/46/section/551>

¹⁷ Companies Act 2006, s. 570: <http://www.legislation.gov.uk/ukpga/2006/46/section/570>

¹⁸ <https://www.ivas.co.uk/media/12250/Share-Capital-Management-Guidelines-July-2016.pdf>

¹⁹ <http://www.pre-emptiongroup.org.uk/getmedia/655a6ec5-fecc-47e4-80a0-7aea04433421/Revised-PEG-Statement-of-Principles-2015.pdf.aspx>

²⁰ <http://www.pre-emptiongroup.org.uk/Principles-and-template-resolutions.aspx>

Graph 4: Number of FTSE 100 share issuance requests without pre-emptive rights broken down by 5% or 10% maximum dilution (per quarter).

Among our sample, the five companies with the lowest level of support on these types of resolutions were:

- Intu Properties (with pre-emptive rights: 66.8% in favour; without pre-emptive rights: 97.5% in favour)
- Old Mutual (with pre-emptive rights: 74.5% in favour; without pre-emptive rights: 74.4% in favour)
- Rio Tinto (with pre-emptive rights: 76.2% in favour; without pre-emptive rights: 90.1% in favour)
- Hammerson (with pre-emptive rights: 77.5% in favour; without pre-emptive rights: 97.7% in favour; without pre-emptive rights in connection with an acquisition or other capital investment: 94.2%)
- BAE Systems (with pre-emptive rights: 81.7% in favour; without pre-emptive rights: 97.8% in favour)

We note that ISS and Glass Lewis recommended in favour of each of these resolutions.

1.4.2 Director elections

The companies with the lowest level of support on director elections among our sample were:

- Compass Group (Ireena Vittal: 63.5% in favour)
- Reckitt Benckiser (Kenneth Hydon: 69.2% in favour)
- HSBC Holdings (Irene Lee: 71.2% in favour)
- Sky (James Murdoch: 71.6% in favour)
- Pearson (Elizabeth Corley: 73.1% in favour)

We note that ISS recommended against Ireena Vittal, Kenneth Hydon, Irene Lee, and James Murdoch, while Glass Lewis recommended against Ireena Vittal, Irene Lee, and James Murdoch.

1.4.3 Remuneration

Since 2002 quoted companies in the UK have been required to prepare a Directors' Remuneration Report and to offer shareholders an opportunity to vote on an advisory ordinary resolution approving this report²¹. In 2013 regulation was introduced requiring a binding vote on executive remuneration²². Under the regulations, remuneration reporting is comprised of three elements: the Annual Statement; the Annual Remuneration Report; and the Directors' Remuneration Policy. The Annual Remuneration Report continues to be subject to an annual advisory vote. The Directors' Remuneration Policy is subject to a binding vote at least once every three years.

²¹ The requirement was introduced in the UK by the Directors' Remuneration Report Regulations 2002 (SI 2002/1986) (see here: <http://www.legislation.gov.uk/uksi/2002/1986/contents/made>), amending the Companies Act 1985 (Companies Act 1985, s. 241A: <http://www.legislation.gov.uk/ukpga/1985/6/section/241A> and <http://www.legislation.gov.uk/uksi/2002/1986/regulation/7/made>). This requirement was re-enacted in the subsequent "consolidating" act covering company law, the Companies Act 2006, s. 439: <http://www.legislation.gov.uk/ukpga/2006/46/section/439>.

²² The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (SI 2013/1981): <http://www.legislation.gov.uk/uksi/2013/1981/contents/made>.

1.4.3.1 Remuneration report

During the reporting period a total of 18 companies in our FTSE 100 sample received less than 80% support on their Remuneration Report (including the rejected resolutions mentioned in section 1.2). In contrast, during the 2015 AGM season only six companies received less than 80% support, while in 2016 this increased to 12.

The companies with the lowest level of support on the Remuneration Report among our sample were (excluding the rejected resolutions mentioned in section 1.2):

- Wm Morrison Supermarkets (51.9% in favour)
- AstraZeneca (61.2% in favour)
- Burberry Group (68.5% in favour)
- Informa (70.8% in favour)

ISS recommended a vote against each of these resolutions, while Glass Lewis recommended a negative vote at Pearson, Wm Morrison Supermarkets and Burberry Group.

1.4.3.2 Remuneration policy and LTIPs

During the 2017 AGM season nine companies in our FTSE 100 sample received less than 80% support on 11 Remuneration Policy/LTIP proposals. Of this total, nine were related specifically to the company's Remuneration Policy (compared to two during the 2016 AGM season and none during the 2015 AGM season).

The companies in our sample proposing a Remuneration Policy vote and receiving more than 10% opposition were:

- Pearson (68.9% in favour)
- Ashtead Group (71.8% in favour)
- Experian (75.5% in favour)
- Micro Focus International (77.8% in favour)
- Croda International (86.3%)

ISS recommended against at Ashtead Group, while Glass Lewis recommended against at Experian and Micro Focus International.

1.4.4 Short notice period for EGMs

The Companies Act 2006 states²³ that a general meeting that is not an AGM may be called on 14 days' notice if the company "offers the facility for members to vote by electronic means accessible to all members" and if this has been approved by the previous AGM (or a subsequent general meeting) as a special resolution (requiring 75% approval).

Glass Lewis had routinely recommended a vote against requests for a shortened notice period until they changed their policy at the beginning of 2017. Glass Lewis now supports these proposals when "companies provide assurances that such authority would only be used when merited by exceptional circumstances"²⁴. Following the change, the number of resolutions that have received more than 10% against votes has fallen from 29 in the 2016 AGM season to five proposals during the 2017 AGM season.

Among our sample, the companies with the lowest level of support on these types of resolutions were:

- The British Land Company (85.6% in favour)
- Sky (89.3% in favour)
- Bunzl (89.4% in favour)
- Marks and Spencer Group (89.6%)
- Wm Morrison Supermarkets (89.9%)

In each of these cases ISS recommended a vote in favour, while Glass Lewis recommended an against vote at Sky, which held its meeting in October 2016 (before the policy change).

²³ Companies Act 2006, s. 307A: <http://www.legislation.gov.uk/ukpga/2006/46/section/307A>

²⁴ http://www.glasslewis.com/wp-content/uploads/2016/11/Guidelines_UK.pdf

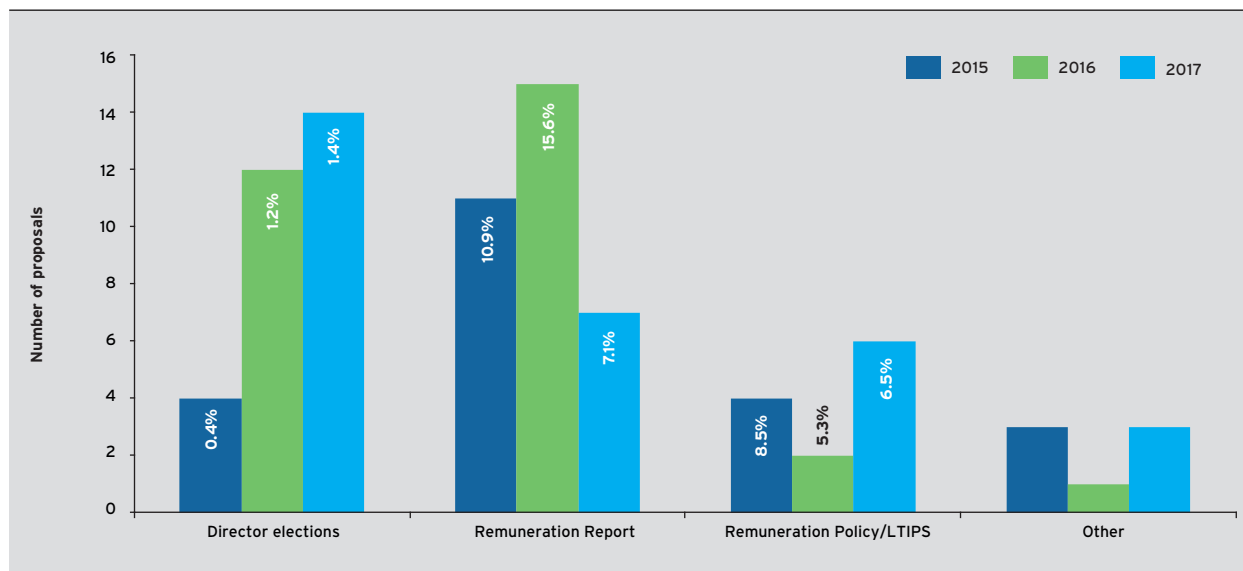
2. PROXY ADVISORS

Many institutional investors rely on proxy advisory firms, such as ISS, Glass Lewis, IVIS and PIRC for meeting agenda analysis and vote recommendations to inform their voting decisions. A negative recommendation from a proxy advisor can have an adverse impact on the vote outcome of a given resolution.

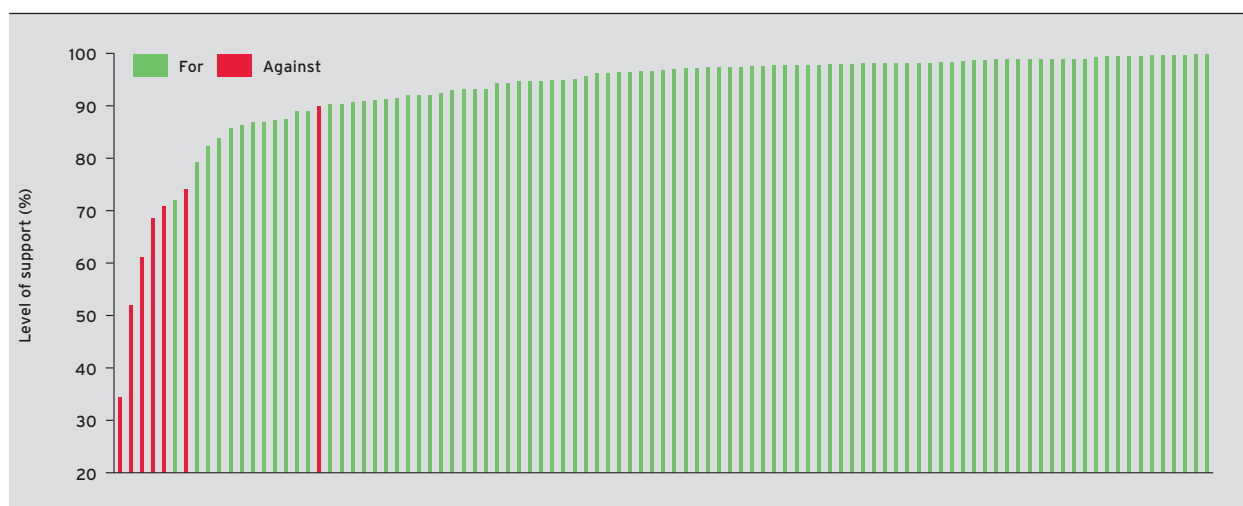
2.1 Institutional Shareholder Services (ISS)

Institutional Shareholder Services²⁵ (ISS) is a leading provider of corporate governance solutions for asset owners, hedge funds, and asset service providers. Between 1 August 2016 and 31 July 2017, 20 companies out of the FTSE 100 received at least one against or abstain recommendation from ISS (compared to 24 in 2016), for a total of 30 resolutions (the same as in 2016).

Graph 5: Overview of the number of against/abstain recommendations by ISS at FTSE 100 AGMs over the past three years. The percentages represent the ratio between the number of proposals that received a negative ISS recommendation and the total number of proposals in each category.



Graph 6: Vote in favour of the Remuneration Report among FTSE 100 companies (ordered by level of support), and colour coded by ISS vote recommendation



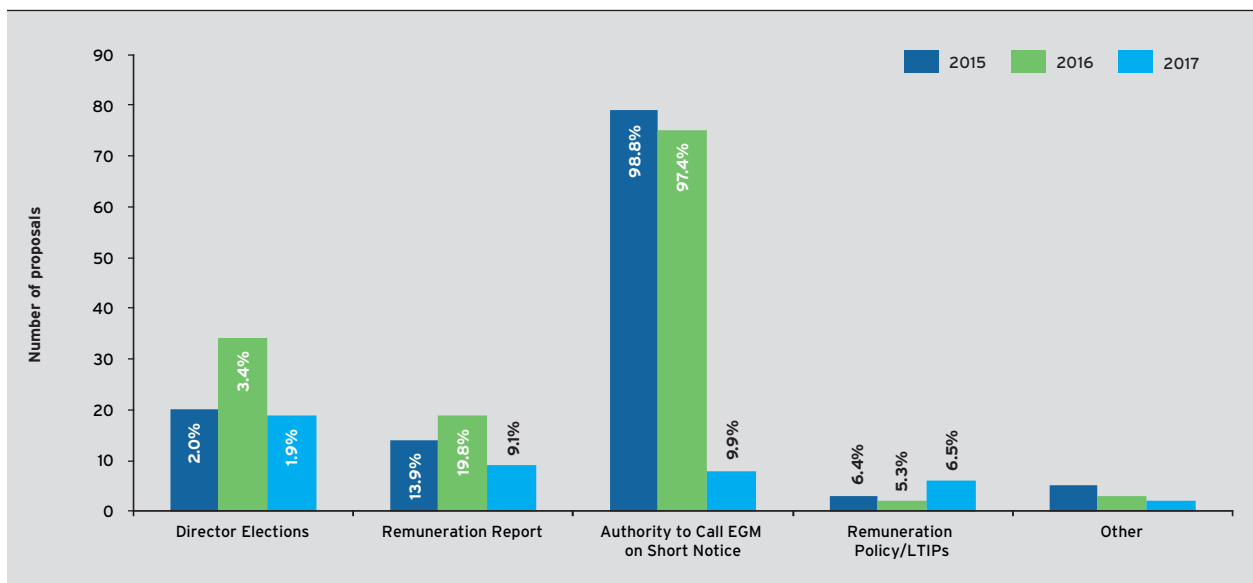
²⁵ <http://www.issgovernance.com/about/about-iss/>

2.2 Glass Lewis

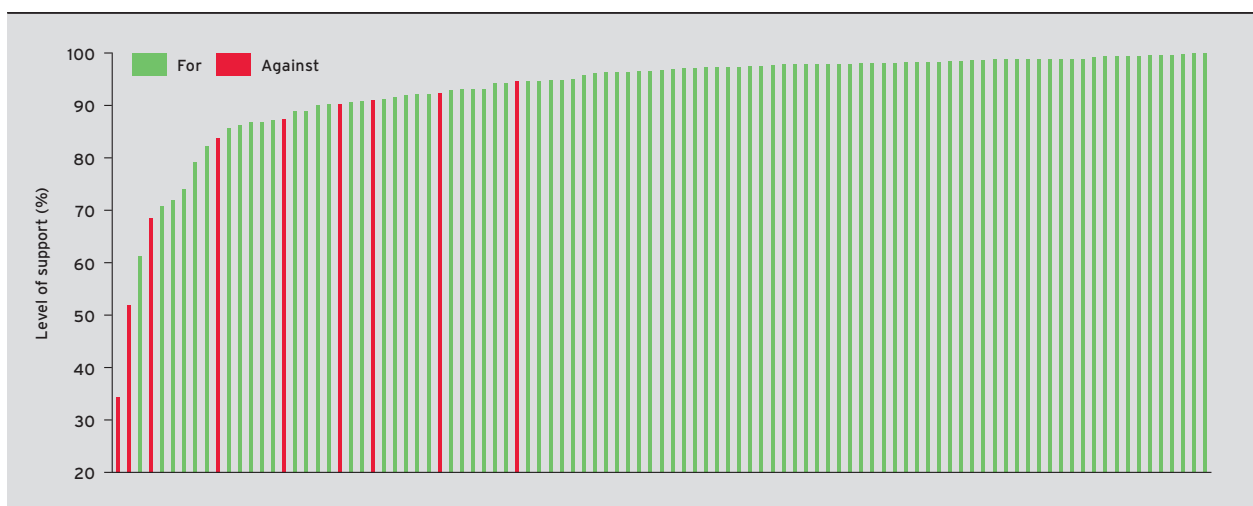
Glass Lewis²⁶ is a leading provider of governance services that support engagement among institutional investors and corporations through its research, proxy vote management and technology platforms.

Between 1 August 2016 and 31 July 2017, 29 companies out of the FTSE 100 received at least one against or abstain recommendation from Glass Lewis (compared to 81 in 2016), for a total of 44 resolutions (compared to 133 resolutions in 2016). See section 1.4.4 for the main reason for the change between 2016 and 2017.

Graph 7: Overview of the number of negative/abstain recommendations by Glass Lewis at FTSE 100 AGMs over the past three years. The percentages represent the ratio between the number of proposals that received a negative Glass Lewis recommendation and the total number of proposals in each category



Graph 8: Vote in favour of the Remuneration Report among FTSE 100 companies (ordered by level of support), and colour coded by Glass Lewis vote recommendation.

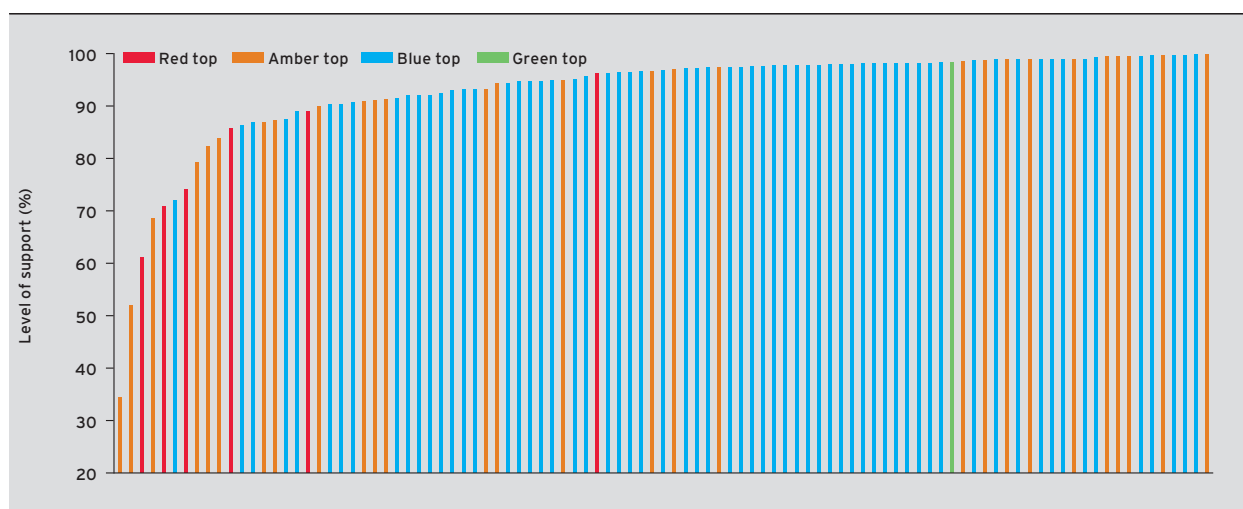


²⁶ <http://www.glasslewis.com/about-glass-lewis/>

2.3 IVIS

The Institutional Voting Information Service²⁷ (IVIS) was founded by the Association of British Insurers (ABI) in 1993. Since June 2014 IVIS is part of the Investment Association. IVIS does not issue explicit vote recommendations. However, it uses a colour coded system which some investors will use as guidance on whether to vote negatively. The colour showing the strongest concern is Red, followed by Amber which raises awareness to particular elements of the report. A Blue Top indicates no areas of major concern, while a Green Top indicates an issue that has now been resolved.

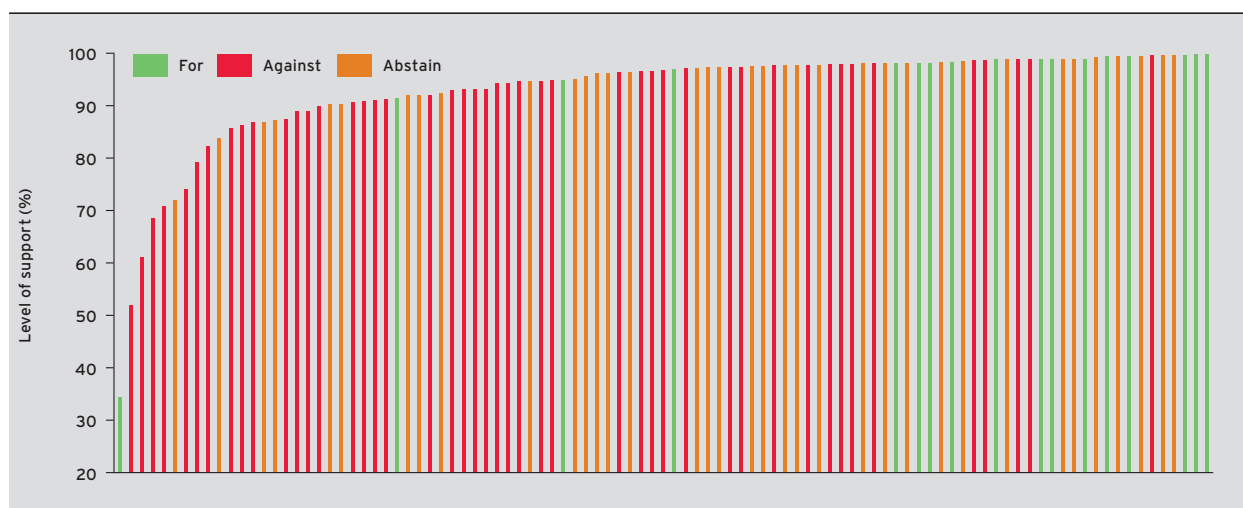
Graph 9: Vote in favour of the Remuneration Report among FTSE 100 companies (ordered by level of support), and colour coded by IVIS alert level. (Regarding remuneration).



2.4 PIRC

Pensions & Investment Research Consultants²⁸ (PIRC) was established in 1986 by a group of public sector pension funds. It provides proxy research services to institutional investors on governance and other ESG issues.

Graph 10: Vote in favour of the Remuneration Report among FTSE 100 companies (ordered by level of support), and colour coded by PIRC vote recommendation.



²⁷ <https://www.ivis.co.uk/about-ivis/>

²⁸ <http://pirc.co.uk/about-us-1>

3. CORPORATE GOVERNANCE DEVELOPMENTS

3.1 Executive Remuneration Working Group

In autumn 2015 the Executive Remuneration Working Group was established by the Investment Association as an independent panel to address concerns that executive remuneration had become too complex and failed to align executive interests with those of the shareholders who own the business. In July 2016 the group published its final report which included ten recommendations²⁹.

The key recommendation of the report called for remuneration committees to be given the flexibility to select the right remuneration structure for the company, rather than focusing solely on the current “one-size-fits-all” LTIP structure³⁰. A notable alternative mentioned in the report is the possibility of introducing restricted share awards (which, unlike LTIPs, do not have performance conditions attached to vesting). The report states that as these awards have a more certain outcome compared to the traditional LTIP model, a discount on the value of the award should be applied, and the report recommends that the discussion about this discount should begin at a guide rate of 50%.

Other key recommendations include:

- Non-executive directors should serve on the remuneration committee for at least a year before taking over the chairmanship of the committee.
- Boards should ensure the company chairman and whole board are appropriately engaged in the remuneration setting process.
- Remuneration committees need to exercise independent judgement and not be over reliant on their remuneration consultants particularly during engagements with shareholders.
- Shareholder engagement should focus on the strategic rationale for remuneration structures and involve both investment and governance perspectives.
- The use of discretion should be clearly disclosed to investors with the remuneration committee articulating the impact the discretion has had on remuneration outcomes.
- Remuneration committees and consultants should guard against the potential inflationary impact of market data on their remuneration decisions.

²⁹ https://www.theinvestmentassociation.org/assets/components/ima_filesecurity/secure.php?f=press/2016/ERWG%20Final%20Report%20July%202016.pdf

³⁰ <https://www.theinvestmentassociation.org/media-centre/press-releases/2016/executive-remuneration-working-group-issues-ten-recommendations-to-rebuild-trust-in-pay.html>

3.2 Diversity

Board diversity was a big topic during the reporting period, with multiple publications and two separate independent reviews on the topic.

In November 2016 the Hampton-Alexander review³¹ was conducted with the aim of ensuring talented women at the top of businesses were recognised, promoted and rewarded. The review recommends that the FRC amend the UK Corporate Governance Code so that companies in the FTSE 350 would be required to disclose the gender balance of their executive committees in the annual report to make sure there is transparency around how many women are in senior positions. The report also sets a target for the FTSE 100 of having a third of their senior leadership roles occupied by women by the end of 2020. Statistics released in conjunction with the report showed that 25% of those currently sitting on FTSE 100 executive committees were women, with 20 FTSE 100 companies having at least one third of their executive pipeline constituted of women. However, 12 FTSE 100 executive committees had no female representation³².

The Parker Review³³ also released in November 2016 was conducted with the aim of highlighting that ethnic minority representation in boardrooms across the FTSE 100 is disproportionately low, especially when looking at the number of UK citizen directors of colour. "The report reveals that out of 1,087 director positions in the FTSE100, only 8% of positions are held by directors of colour, of which 1.5% are UK citizens, despite the fact that 14% of the UK population is from a non-white ethnic group (up from 2% in 1971)"³⁴. The report sets a target for FTSE 100 companies to have at least one director of colour by 2021, and for FTSE 250 companies by 2024.

³¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/613085/ftse-women-leaders-hampton-alexander-review.pdf

³² <https://www.gov.uk/government/news/ftse-100-executive-pipeline-needs-more-women-say-top-business-bosses>

³³ [http://www.ey.com/Publication/vwLUAssets/A_Report_into_the_Ethnic_Diversity_of_UK_Boards/\\$FILE/Beyond%20One%20by%2021%20PDF%20Report.pdf](http://www.ey.com/Publication/vwLUAssets/A_Report_into_the_Ethnic_Diversity_of_UK_Boards/$FILE/Beyond%20One%20by%2021%20PDF%20Report.pdf)

³⁴ <http://www.ey.com/uk/en/newsroom/news-releases/16-11-02---ftse-boards-do-not-reflect-ethnic-diversity-of-the-uk>

3.3 Government reforms

On 29 August 2017 the UK government published a package of corporate governance reforms intended to increase boardroom accountability and enhance trust in business³⁵. The reforms centred around three key issues: executive pay; strengthening the wider stakeholder voice; and corporate governance in large privately-held businesses.

Some of the other highlights include the following:

Executive Pay

Invite the FRC to revise the corporate governance code to help clarify the steps companies should take when they encounter significant shareholder opposition on executive pay policies; give remuneration committees a wider remit for overseeing pay across their company, and require them to engage with the wider workforce to explain how executive remuneration aligns with wider company pay policy; require directors to serve on the remuneration committee of a company for at least 12 months prior to becoming chairman of the committee; and extend the recommended minimum vesting period for share awards from three to five years.

Introduce secondary legislation at listed companies to report annually the pay ratio of the CEO to the average pay of their UK workforce; and require companies to provide a clearer explanation of the potential outcomes from LTIPs under a range of scenarios.

Invite the Investment Association to create and maintain a public register of listed companies who have received significant shareholder opposition (>20%) to pay awards, along with a record of the measures the company is taking to address these concerns.

Strengthening the employee, customer and wider stakeholder voice

Introduce secondary legislation to require all companies of a significant size to explain how their directors are complying with the requirements of Section 172 of the Companies Act³⁶.

Invite the FRC to introduce a new principle on the importance of strengthening the voice of employees and other non-shareholder interests at board level as an important component of running a sustainable business.

Asking ICSA and the Investment Association to provide guidance on practical ways in which companies can engage with their employees and other stakeholders.

Inviting the GC100 group of the largest listed companies to complete and publish new advice and guidance on the practical interpretation of the directors' duties in Section 172 of the Companies Act 2006.

Corporate governance in large privately-held businesses

Invite the FRC to work with a group of stakeholders to develop voluntary corporate governance principles for large private companies under the chairmanship of a business figure with relevant experience.

Introduce secondary legislation to require private companies of significant size to disclose their corporate governance arrangements in their Directors' Report and on their website, including whether they follow any formal code.

³⁵ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/640631/corporate-governance-reform-government-response.pdf

³⁶ <https://www.legislation.gov.uk/ukpga/2006/46/part/10/chapter/2/crossheading/the-general-duties>



France





France Highlights

- The average quorum for the 34 CAC40 companies in our sample (excluding ones whose registered office is outside France) during the 2017 AGM season was 65.4% compared to 65.81% in 2016.
- Amongst the CAC40 companies surveyed a total of seven resolutions were rejected by shareholders at the AGMs of three companies: Kering, Orange and Safran.
- Three shareholder proposals were filed at the AGMs of Accor, Orange and Safran. They all failed to gather sufficient support from shareholders and were therefore rejected.
- The most commonly contested resolutions were say-on-pay resolutions. On average, shareholder support for advisory vote on executive remuneration decreased from 88.1% in 2016 to 83.7% in 2017.
- Among the 34 CAC40 companies surveyed, 26 registered a decrease in the level of support for their advisory say-on-pay resolutions.
- The second most commonly contested resolutions were authorities to issue shares with and without pre-emptive rights.
- Amongst the 34 CAC40 companies surveyed, 25 companies received at least one negative recommendation from ISS, 22 companies received at least one negative or abstain recommendation from Glass Lewis and 33 companies received at least one negative or abstain recommendation from Proxinvest. The AFG raised at least one alert at the AGMs of 18 companies in our CAC40 sample.

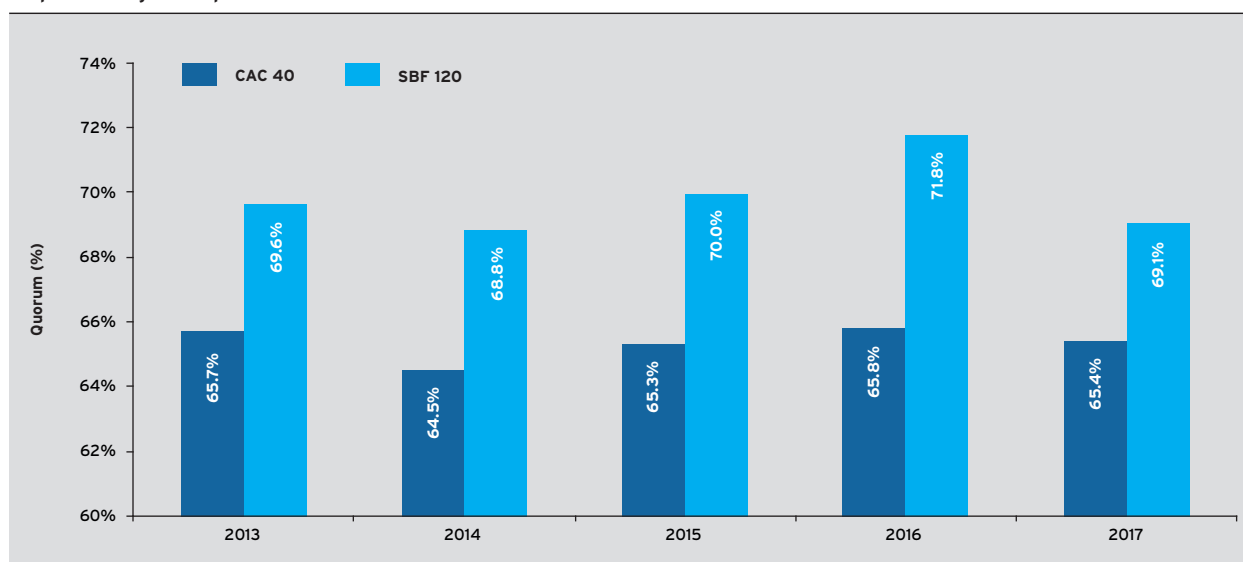
1. VOTING IN FRANCE

1.1 Quorum overview

Georgeson has reviewed the quorum levels of the CAC40 index¹ over the past five years. Our survey includes the 34 CAC40 companies with their corporate headquarters located in France and having held their shareholder meeting between 1 August 2016 and 31 July 2017. Therefore our analysis excludes Airbus Group, ArcelorMittal, LafargeHolcim, Nokia, Solvay and Technip, as their corporate headquarters are located outside France.

The average shareholder vote participation at the AGMs of our CAC40 sample during the 2017 proxy season has been 65.4%. This is similar to the average 2016 quorum, which amounted to 65.81%. The below graph illustrates the evolution of the average of CAC40 and SBF120² quorums over the past five years.

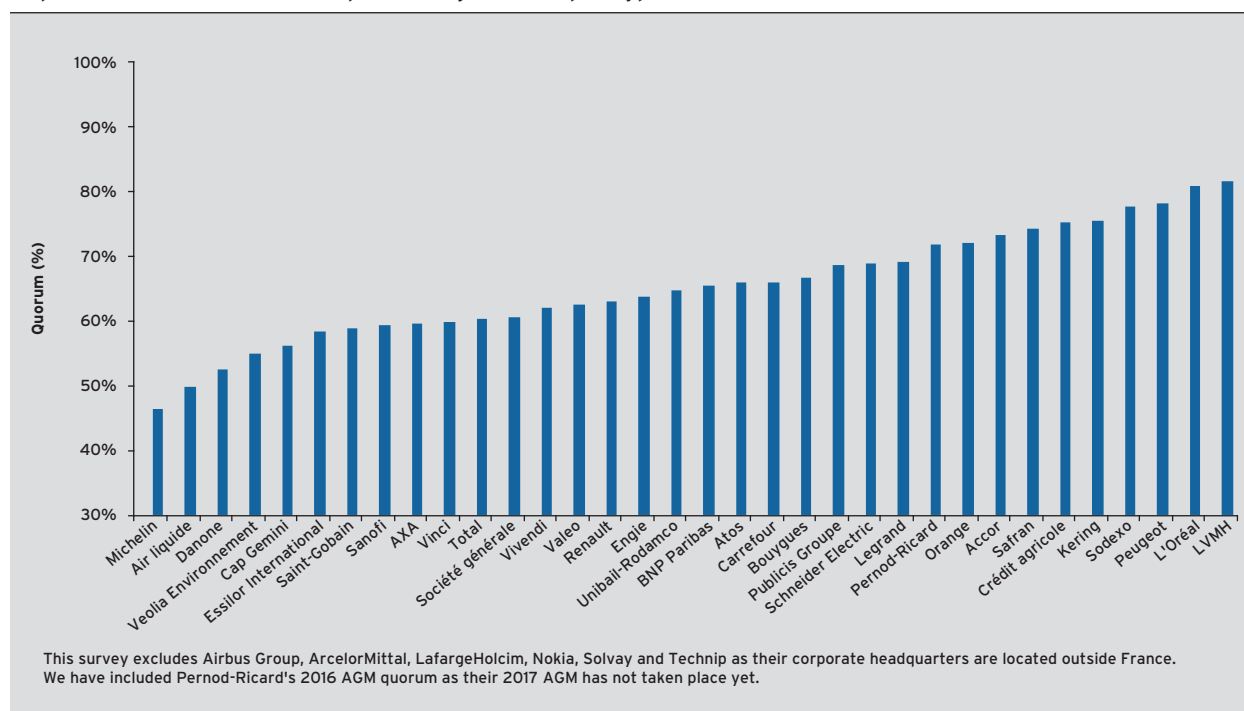
Graph 1: Average AGM quorum levels in the CAC40 and SBF120 between 2013 and 2017.



¹ The CAC40 is a benchmark French stock market index which comprises the 40 largest and most liquid stocks trading on the Euronext Paris. See here: <https://indices.euronext.com/en/products/indices/FRO003500008-XPAR>.

² The SBF 120 is a French stock market index which comprises the 120 most actively traded stocks listed in Paris. It includes all 40 stocks in the CAC40 index and a selection of 80 additional stocks listed on the Premier Marché and Second Marché trading on the Euronext Paris. See here: <https://indices.euronext.com/en/products/indices/FRO003999481-XPAR>.

Graph 2: Quorum levels at CAC40 companies during the 2017 reporting period.



1.2 Rejected resolutions

Amongst the 34 CAC40 companies in our sample that held their AGM between 1 August 2016 and 31 July 2017, seven resolutions proposed by the board were rejected by shareholders, at the AGMs of Kering, Orange and Safran.

BOARD PROPOSALS

Kering

At Kering's AGM, the proposed authority to issue shares for use in the employee share purchase plan was rejected with over 71.9% against votes. It should be noted that the resolution was not actively supported by the Board of Directors. Under French law, when shareholders authorise the board to increase share capital, it is mandatory for the company to simultaneously propose a capital increase in favour of the employees. Both ISS and Glass Lewis recommended in favour of the resolution.

Orange

At Orange's AGM, the five authorities to increase share capital which could be used in the event of a public tender or exchange offer failed to achieve the required two-thirds majority of voting rights cast and were rejected by shareholders (with over 35% against votes). It should be noted that ISS and Glass Lewis had recommended an against vote. They contended that the authorities could be used for anti-takeover purposes.

Safran

Safran's proposal to approve an additional pension scheme agreement with the Chairman of the board, Ross McInnes, failed to achieve the required simple majority of voting rights cast and was rejected (with 50.34% negative votes). It should be noted that ISS and Glass Lewis had recommended an against vote on this resolution.

SHAREHOLDER RESOLUTIONS

Additionally, three shareholder proposals (which were not supported by the board) were filed at the AGMs of Accor, Orange and Safran. All three failed to gather sufficient support from shareholders and were therefore rejected.

Accor

At Accor's AGM, PhiTrust Active Investors, a French activist investment fund, supported by 13 other shareholders representing 2.3% of Accor's capital, filed a proposal to remove double-voting rights for long-term registered shareholders. The resolution failed to obtain the required two-thirds majority of voting rights cast and was rejected by shareholders (with 47% against votes). It should be noted that both ISS and Glass Lewis had recommended a vote in favour of this resolution.

Orange

At Orange's AGM, one shareholder proposal was filed. The FCPE³ Cap'Orange proposed one resolution which was rejected with dissent at over 85%. The FCPE Cap'Orange proposed to authorise up to 0.6% of share capital for use in performance share plans reserved for all employees.

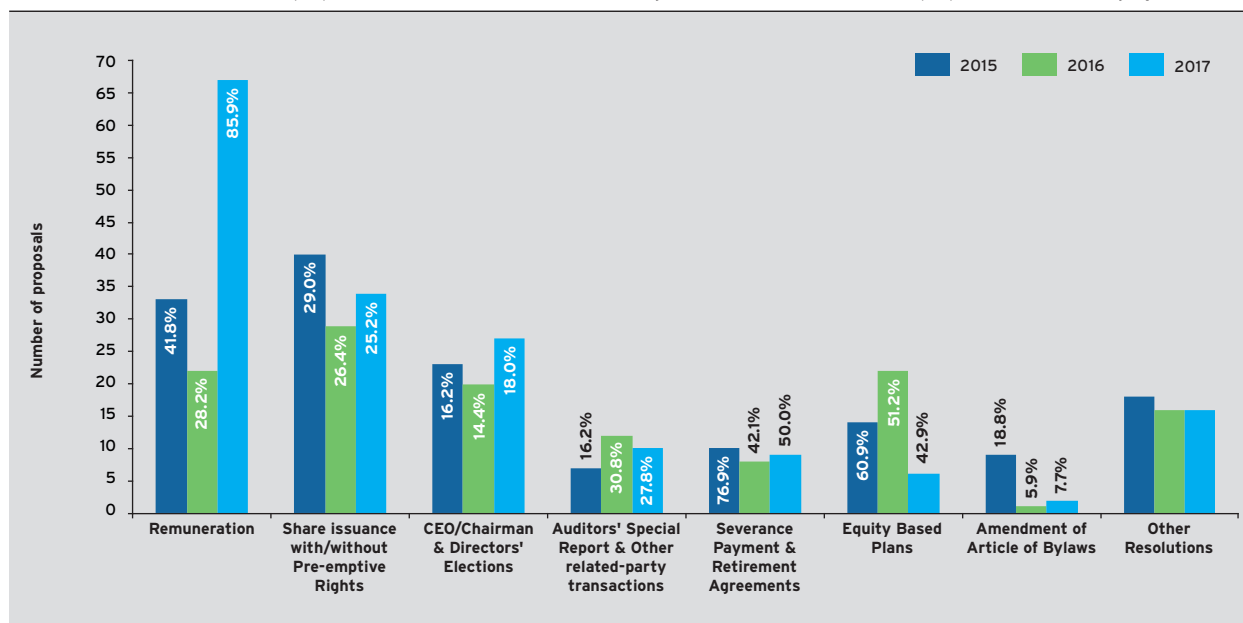
Safran

At Safran's AGM, a shareholder resolution was put forward by the FCPE Safran Investissement which proposed an authority to grant free shares for use in restricted performance share plans reserved for employees and corporate officers. The resolution failed to obtain approval from shareholders and was rejected with dissent at 79.94%. It should be noted that both ISS and Glass Lewis had issued against recommendations on the shareholder resolutions proposed at Orange and Safran.

1.3 Contested agenda items

Among the 34 CAC40 companies in our sample that held their AGM between 1 August 2016 and 31 July 2017, 30 companies saw at least one resolution receive more than 10% shareholder opposition. The total number of resolutions that received over 10% dissent amounted to 171 (including the rejected resolutions discussed in section 1.2). The most commonly contested resolutions were advisory votes on compensation with 38 resolutions receiving more than 10% negative votes. The second most commonly contested resolutions were authorities to issue share capital.

Graph 3: Number of resolutions which received more than 10% against votes in the CAC 40 (by resolution type). The percentages represent the ratio between the number of proposals that received more than 10% against and the total number of proposals in each category.



³ An FCPE, which stands for "Fond commun de placement d'Entreprise", is a collective employee investment fund used in France.

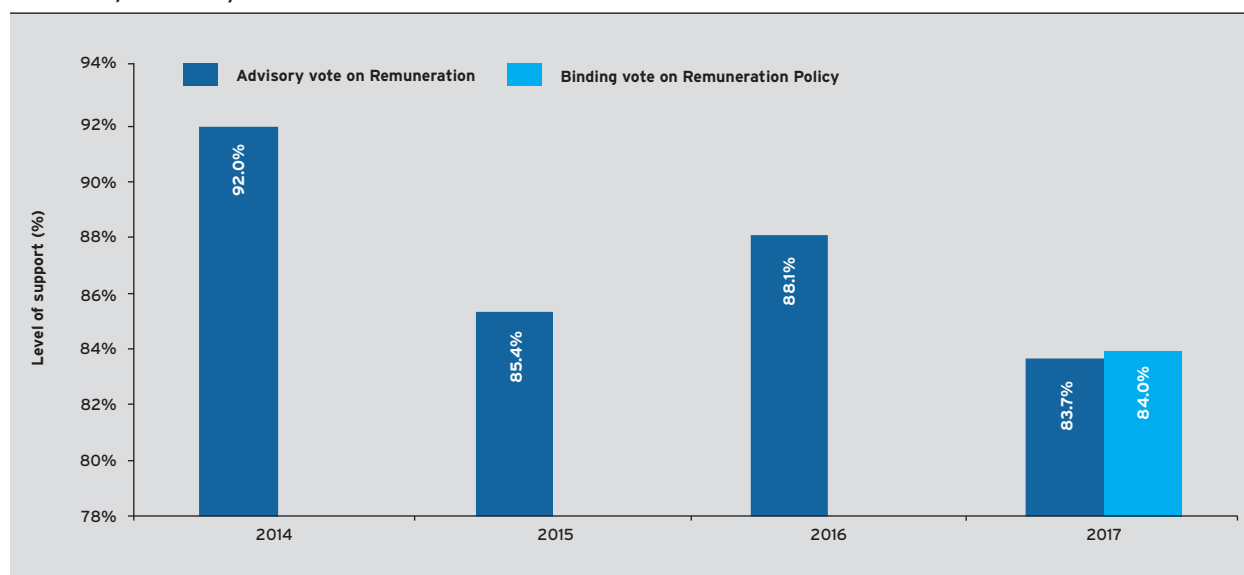
1.3.1 Advisory vote on executive remuneration

Since the 2014 AGM season, companies who refer to the AFEP-MEDEF Code propose an advisory vote on executive remuneration at their AGM. Shareholders vote on the fixed and variable elements of the compensation due, received or awarded during the fiscal year under review.

It should be noted that from 2018, a vote on executive remuneration will be mandatory and binding as provided by the Sapin II law which was adopted by the French parliament in November 2016. Pursuant to the enactment of the Sapin II law, companies also proposed in 2017, for the first time in France, a binding vote to approve the future remuneration policy. A full overview of the Sapin II law is covered in section 3.3.

On average, we recorded a decrease in the level of support for the advisory say-on-pay resolutions at the 2017 CAC40 AGMs (83.7% on average) compared to 2016 (88.1% on average). The below graph illustrates the average of the 34 CAC40 companies vote results for the advisory vote on CEO remuneration over the past four years and the vote results on the executive remuneration policy in 2017.

Graph 4: Average level of support for the advisory vote on CEO remuneration and for the binding vote on remuneration policy among the CAC40 companies surveyed.



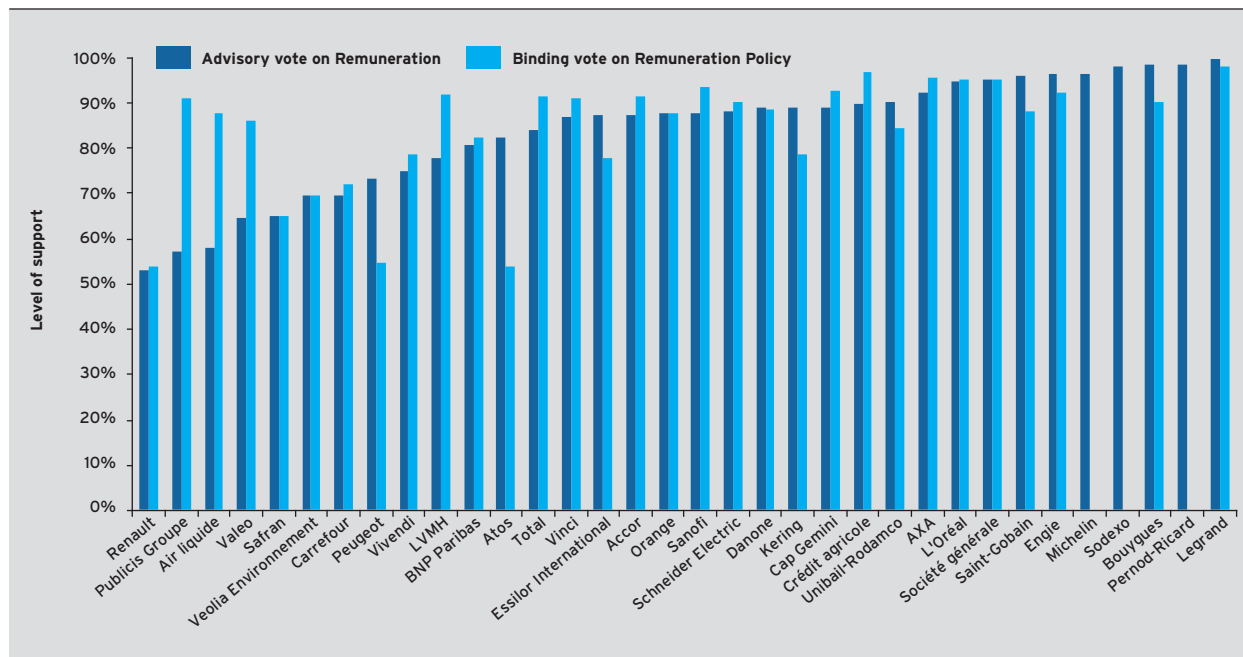
Although, this year all advisory votes on remuneration successfully passed, 26 of the 34 CAC40 companies surveyed registered a decrease in the level of support for their advisory say-on-pay resolutions. Only eight companies saw an increase in the level of positive votes, notably Schneider Electric and Sanofi.

Renault registered the highest level of dissent for the say-on-pay of their CEO Carlos Ghosn which passed with 53.03%. The French State, which holds a 19.7% stake, voted against this resolution (as they did at their 2016 AGM). In November 2016, Reuters⁴ reported that "Chief Executive Carlos Ghosn expects the French government to oppose his pay package in 2017, he told Reuters in an interview, setting the stage for another shareholder meeting clash - this time in an election year. 'I don't think there's any chance that they will approve' Renault's pay proposals, Ghosn said of the likely government position. The economy and finance ministry declined to comment. Ghosn nonetheless hopes to avoid a repeat of the last annual meeting outcome in April, when investors with 54% of voting rights opposed his 7.2 million euro pay. 'Our objective is to have a majority vote,' he said."

⁴ <http://www.reuters.com/article/us-france-renault-pay-exclusive-idUSKBN13D1PJ>

The below graph shows the levels of shareholder approval for the advisory vote on the CEO's remuneration as well as the remuneration policy among the 34 CAC40 companies surveyed.

Graph 5: Level of support during the reporting period for the advisory vote on CEO remuneration and for the binding vote on remuneration policy among the 34 CAC40 companies surveyed.



1.3.2 Authorities to issue shares

In France, every two years issuers usually propose an array of resolutions requesting shareholders to authorise the board to issue shares with or without pre-emptive rights. Capital increase authorities are proposed as extraordinary agenda items (requiring a two-thirds majority of the voting rights cast). This year, at CAC40 AGMs, 34 authorities to issue shares, including 24 without pre-emptive rights, received more than 10% negative votes.

Among the 34 CAC40 companies surveyed, the companies with the lowest level of support on authorities to issue shares were:

- Orange (five of its capital issuance authorities registered between 63% and 64% positive votes and were rejected. This is discussed in section 1.2)
- Safran (four of its capital increase authorities registered approximately 69% positive votes).

Each of these authorisations could be used in the event of a public tender offer. Therefore a number of proxy advisors recommended against votes on them.

1.3.4 Director elections

In 2017, director elections continued to register significant dissent votes. The companies with the lowest level of support on director elections among the CAC40 companies surveyed were:

- Danone (re-election of Lionel Zinsou-Derlin: 57.53 % in favour)
- Publicis (re-election of Simon Badinter: 69.40 % in favour)
- Renault (election of Miriem Bensalah Chaqroun: 69.83 % in favour)

We note that ISS recommended against the re-election of Lionel Zinsou-Derlin and the election of Miriem Bensalah Chaqroun, while Glass Lewis recommended in favour. Both ISS and Glass Lewis recommended against the election of Simon Badinter.

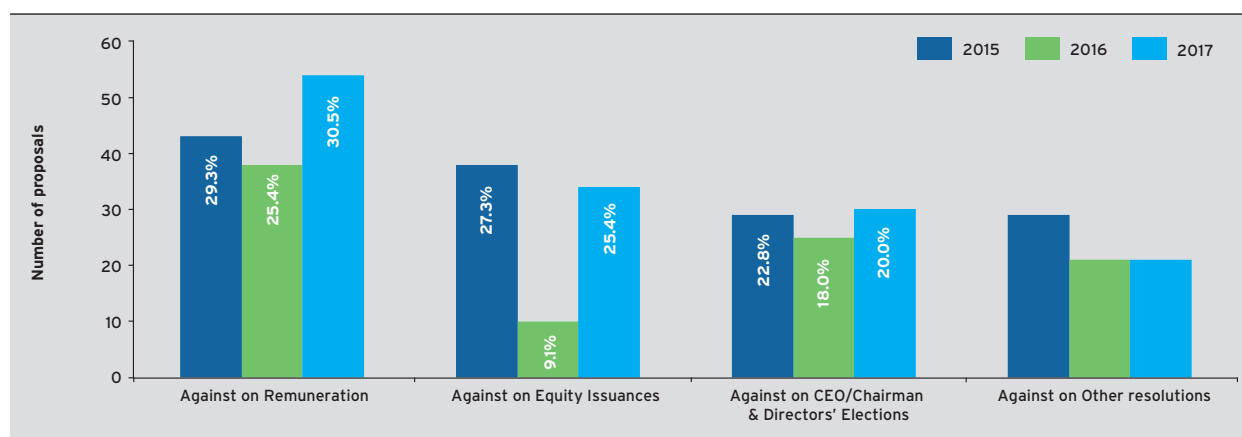
2. PROXY ADVISORS

Many institutional investors rely on proxy advisory firms, such as ISS, Glass Lewis, the AFG and Proxinvest for meeting agenda analysis and vote recommendations to inform their voting decisions. A negative recommendation from a proxy advisor can have an adverse impact on the vote outcome of a given resolution.

2.1 ISS

Institutional Shareholder Services⁵ (ISS) is a leading provider of corporate governance solutions for asset owners, hedge funds, and asset service providers. Between 1 August 2016 and 31 July 2017, 25 companies out of the 34 CAC40 companies surveyed received at least one against recommendation from ISS. The approval of remuneration resolutions (which include executive say-on-pay, remuneration policy, equity incentive plans, severance pay agreements, pension schemes and non-compete agreements) are the resolutions which have received the highest number of against recommendations (54 resolutions). This is followed by the approval of share issuance authorities (34 resolutions). The total number of against recommendations has increased from 94 in 2016 to 139 in 2017.

Graph 6: Overview of the number of negative recommendations by ISS at CAC40 AGMs over the past three years. The percentages represent the ratio between the number of proposals that received a negative ISS recommendation and the total number of proposals in each category.



Graph 7: Level of support for the advisory vote on CEO remuneration among the 34 CAC40 companies surveyed (ordered by level of support) and colour coded by ISS vote recommendation.



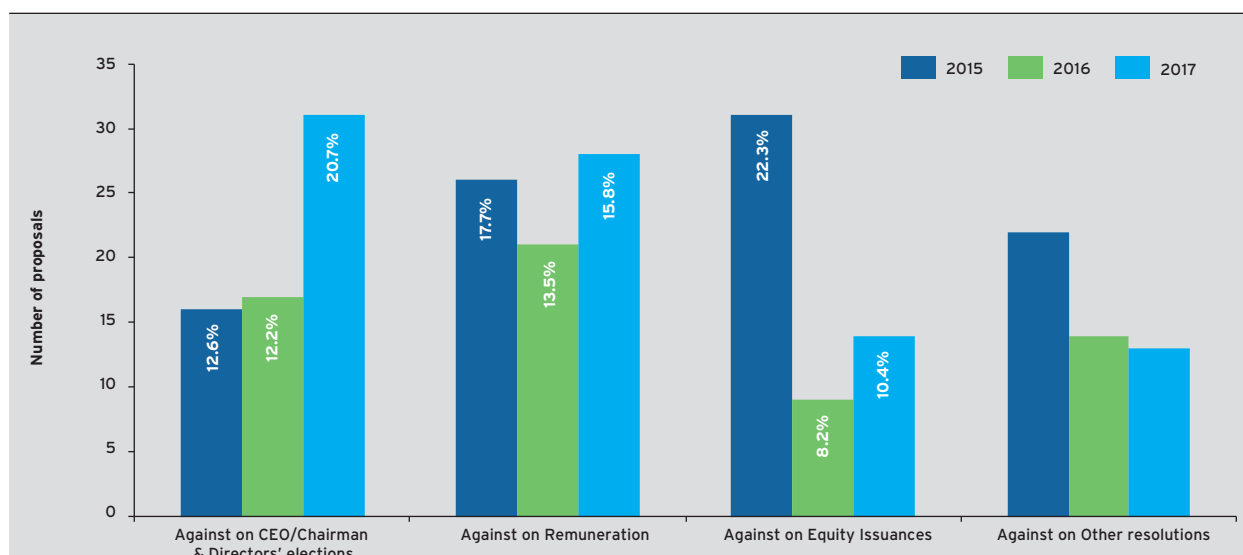
⁵ <http://www.issgovernance.com/about/about-iss/>

2.2 Glass Lewis

Glass Lewis⁶ is a leading provider of governance services that support engagement among institutional investors and corporations through its research, proxy vote management and technology platforms.

Between 1 August 2016 and 31 July 2017, 22 companies out of the 34 CAC40 companies surveyed, received at least one against or abstain recommendation from Glass Lewis. The CEO/Chairman and directors' elections have received the highest number of against recommendations (31 resolutions). This is followed by the approval of remuneration resolutions (28 resolutions).

Graph 8: Overview of the number of negative recommendations by Glass Lewis at CAC 40 AGMs over the past three years. The percentages atop the bars represent the ratio between the number of proposals that received a negative Glass Lewis recommendation and the total number of proposals in each category.



Graph 9: Level of support for the advisory vote on CEO remuneration among the 34 CAC40 companies surveyed (ordered by level of support) and colour coded by Glass Lewis vote recommendation.



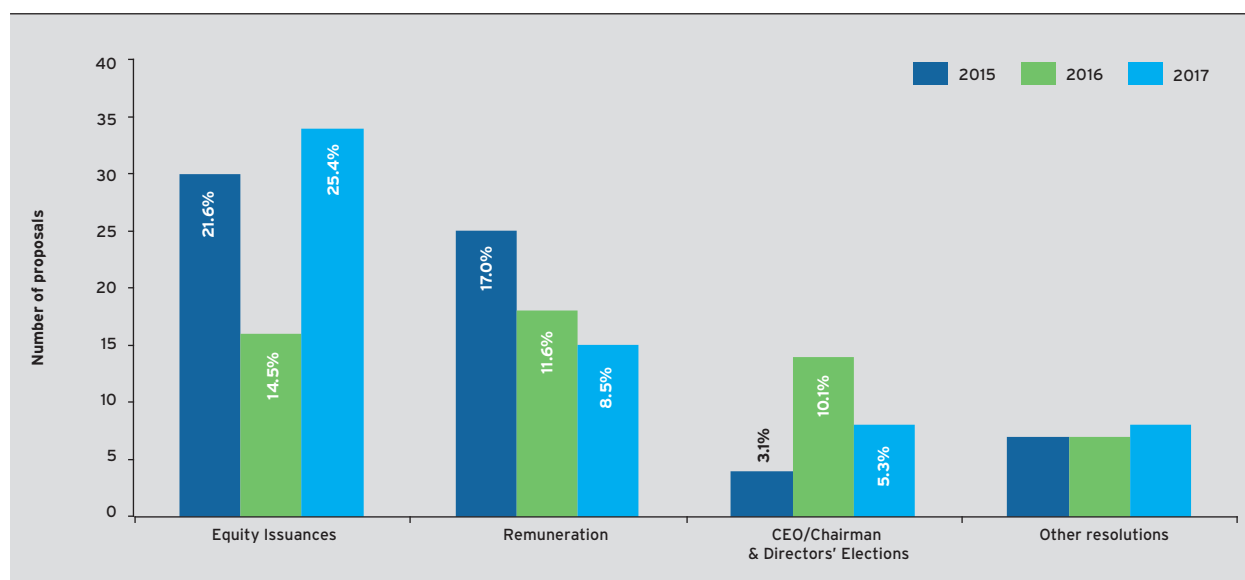
⁶ <http://www.glasslewis.com/about-glass-lewis/>

2.3 AFG

The AFG (Association Française de la Gestion financière)⁷, the French asset management association, represents and promotes the interests of the French asset management industry. The AFG, via its alert programme, issues a report for each AGM in the SBF120 index which either highlights resolutions that do not comply with their code or states that all resolutions are in line with their code.

Between 1 August 2016 and 31 July 2017, 18 companies out of the 34 CAC40 companies surveyed received at least one alert from the AFG. The approval of share issuance authorities has received the highest number of alerts (34 resolutions). This is followed by the approval of remuneration resolutions (15 resolutions).

Graph 10: Overview of the number of alerts raised by the AFG at CAC40 AGMs over the past three years. The percentages represent the ratio between the number of proposals that received an alert and the total number of proposals in each category.



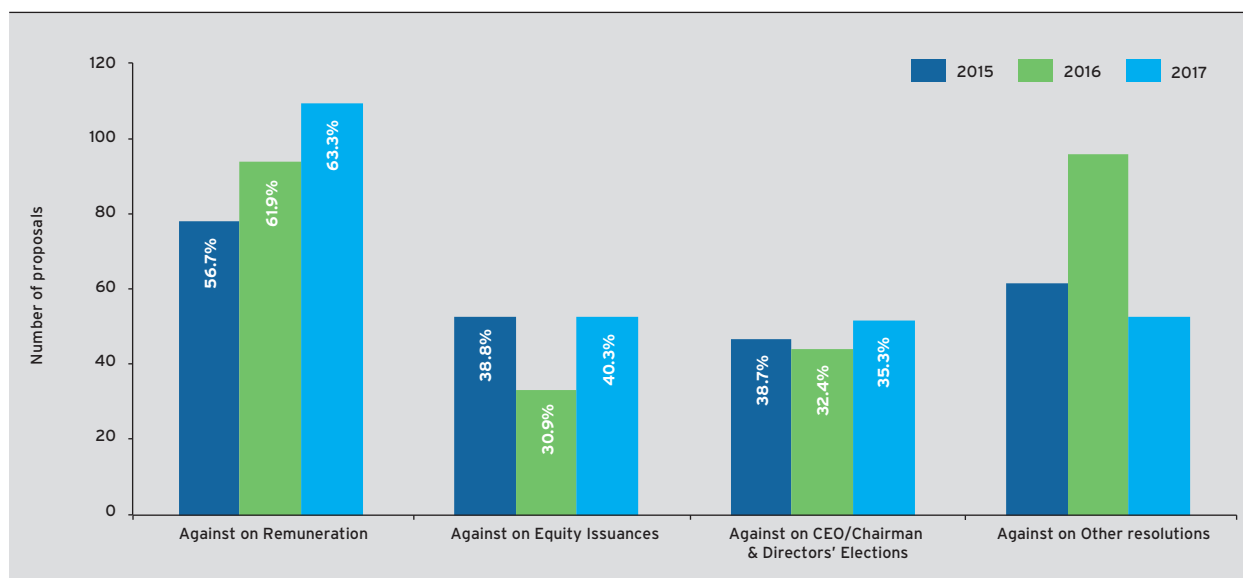
⁷ <http://www.afg.asso.fr/en/afg/about-us/overview-2/>

2.4 Proxinvest

Proxinvest⁸ is a French independently-owned proxy advisory firm supporting the engagement and proxy analysis processes of investors. Proxinvest analyses corporate governance practices and resolutions proposed at general meetings of listed firms. They are also members of the Expert Corporate Governance Service⁹ (ECGS), a partnership of independent local proxy advisors.

Between 1 August 2016 and 31 July 2017, 33 companies out of the 34 CAC40 companies surveyed received at least one against or abstain recommendation from Proxinvest. The approval of remuneration resolutions (which include executive say-on-pay, remuneration policy, equity incentive plans, severance pay agreements, pension schemes and non-compete agreements) are the resolutions which have received the highest number of against recommendations (112 resolutions). This is followed by the approval of share issuance authorities (54 resolutions).

Graph 11: Overview of the number of negative recommendations by Proxinvest at CAC40 AGMs over the past three years. The percentages represent the ratio between the number of proposals that received a negative Proxinvest recommendation and the total number of proposals in each category.



⁸ http://www.proxinvest.fr/?page_id=689&lang=en

⁹ <http://www.ecgs.org/partners>

3. CORPORATE GOVERNANCE DEVELOPMENTS

3.1 Gender diversity

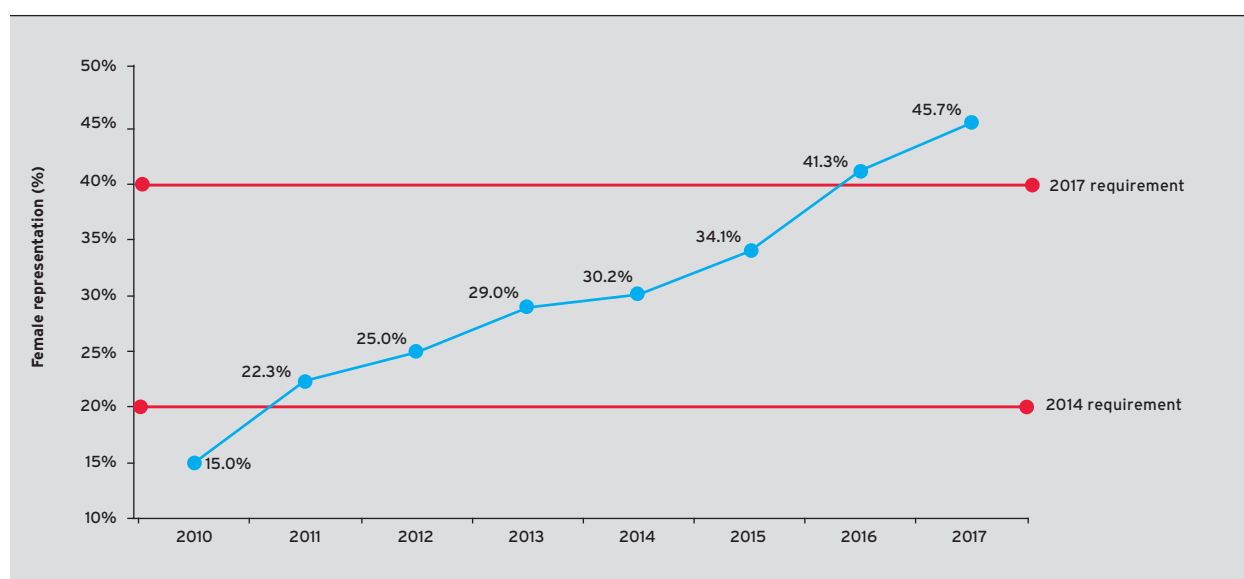
The Copé-Zimmermann law¹⁰ came into force in January 2011 and provides for balance of men and women on companies' executive and supervisory boards. The law requires that companies listed on the stock exchange and non-quoted companies with at least 500 employees and a €50 million turnover over the previous three consecutive years must have at least 20% of the underrepresented gender on their board at the end of the first AGM held after 2014 and 40% at the end of the first AGM held after 2017.

If these thresholds are not reached:

- Irregular appointments will be deemed null and void but will not invalidate any collective decision taken with the participation of the null and void appointee(s);
- Directors' remuneration will be suspended and that fact will require mention in the directors' report.

Following the 2017 AGM season, the boards of directors at CAC40 companies are now composed on average of 45.7% women versus 15% in 2010. The graphs below show the evolution of the average number of women on CAC40 boards over the past seven years and the percentage of women on the board of the 34 CAC40 companies we surveyed in 2017.

Graph 12: Evolution of the average percentage of women on CAC40 boards since 2010.



¹⁰ <http://www.eurofound.europa.eu/observatories/eurwork/articles/french-law-to-increase-number-of-women-directors>

3.2 AFEP-MEDEF

In November 2016, the AFEP-MEDEF published a new edition of their corporate governance code¹¹: “The revised Code introduces further progress:

Governance:

- strengthening the role of the board in strategy,
- provisions on the independence of directors,
- reference to Corporate Social Responsibility

Remuneration:

“The Code has been simplified to achieve broader standards by strengthening the principles and rules for determining the remuneration of executive directors, by reaffirming the role of the Board of Directors in this area; redundancies and retranscriptions of legislative or regulatory standards have also been eliminated.”

¹¹ <http://www.afep.com/uploads/medias/documents/Code%20de%20gouvernement%20d'entreprise%20des%20soci%C3%A9t%C3%A9s%20cot%C3%A9es%20novembre%202016.pdf>

3.3 Sapin II Law

The Sapin II law¹² is aimed at fostering economic transparency, fighting corruption and modernising the economy. As part of this law the French government proposed the introduction of a binding vote on executive remuneration. On 8 November 2016, Parliament adopted, by a final vote of the National Assembly, the Sapin II law. On 18 March 2017, the decree¹³ implementing the law, which companies had been awaiting for several months, came into force shortly before the start of the AGM season.

The law provides for shareholder votes on the remuneration of executive directors of listed companies in two stages:

1. The ex-ante vote: From 2017, an annual binding vote approving the future remuneration policy. Glass Lewis explains¹⁴ that: "This is an annual, binding shareholder vote on the principles and criteria of determination, distribution and allocation of fixed, variable and exceptional components of total compensation and benefits any kind, attributable to the chair, CEO, and Deputy CEO in a single board structure, or to the members of the executive board, the sole managing director, and the members of the supervisory board in a dual board structure. In case of failure of this forward looking vote, the previous principles and criteria will continue to apply or, if there was no previous policy, remuneration will be determined 'in accordance with the previous year's remuneration'."
2. The ex-post vote: Beginning in 2018, an ex-post annual binding vote approving the remuneration of executive directors paid or allocated in respect of the previous financial year. Glass Lewis explains that: "shareholders will be required to approve the payment of variable and exceptional pay amounts to the chair of the board of directors or the supervisory board, the CEO, deputy CEO, the members of the management board or a sole managing director."

¹² <http://www.gouvernement.fr/en/sapin-ii-law-transparency-the-fight-against-corruption-modernisation-of-the-economy>

¹³ <https://www.legifrance.gouv.fr/eli/decret/2017/3/16/ECFT1703092D/jo/texte>

¹⁴ <http://www.glasslewis.com/amendment-executive-pay-leaves-french-boards-bind/>



Netherlands





Netherlands Highlights

- The average quorum for the AEX and AMX companies increased in 2017. The average AEX quorum reached 72.14% (from 70.49% in 2016) and the average AMX quorum reached 73.86% (from 69.68% in 2016).
- Amongst our sample of AEX and AMX companies, one company had a management-proposed resolution rejected in 2017 (Royal BAM Group NV). Furthermore, one shareholder proposal was rejected by shareholders (Royal Dutch Shell).
- This year one resolution was withdrawn in the AEX and AMX, compared to three resolutions in 2016.
- The most commonly contested resolutions were authorities to issue shares and authorities to restrict or exclude pre-emptive rights. The second most commonly contested resolutions were remuneration related proposals, followed by Board (re)elections.
- Out of the AEX and AMX companies surveyed four issuers received at least one against recommendation from ISS and four issuers received at least one against recommendation from Glass Lewis.

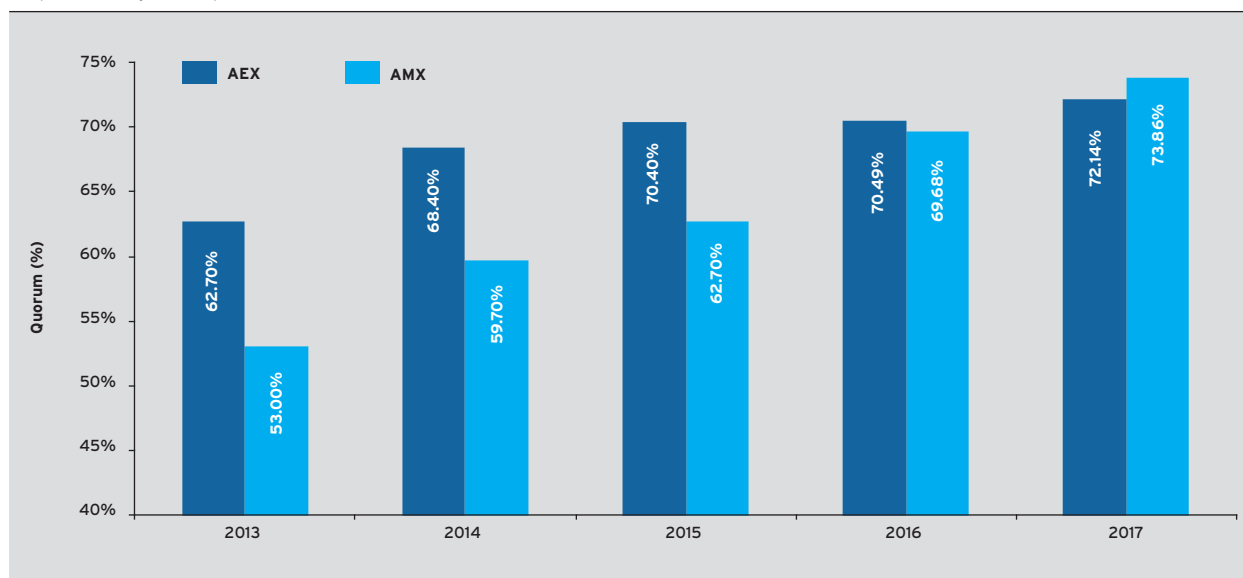
1. VOTING IN THE NETHERLANDS

1.1 Quorum overview

We have reviewed the quorum levels of AEX¹ and AMX² companies over the past five years. Our survey includes companies that were part of the above-mentioned indices on 31 July 2017 and held their AGM between 1 August 2016 and 31 July 2017. This includes 22 companies in the AEX and 21 companies in the AMX.

Average quorum levels in both the AEX and AMX have increased in 2017 compared to 2016. The average quorum in 2017 for AEX listed companies was 72.14% as opposed to 70.49% in 2016. The AMX average quorum in 2017 was 73.86% as opposed to 69.68% in 2016. The average quorum of the AMX exceeded that of the AEX for the first time since 2010.

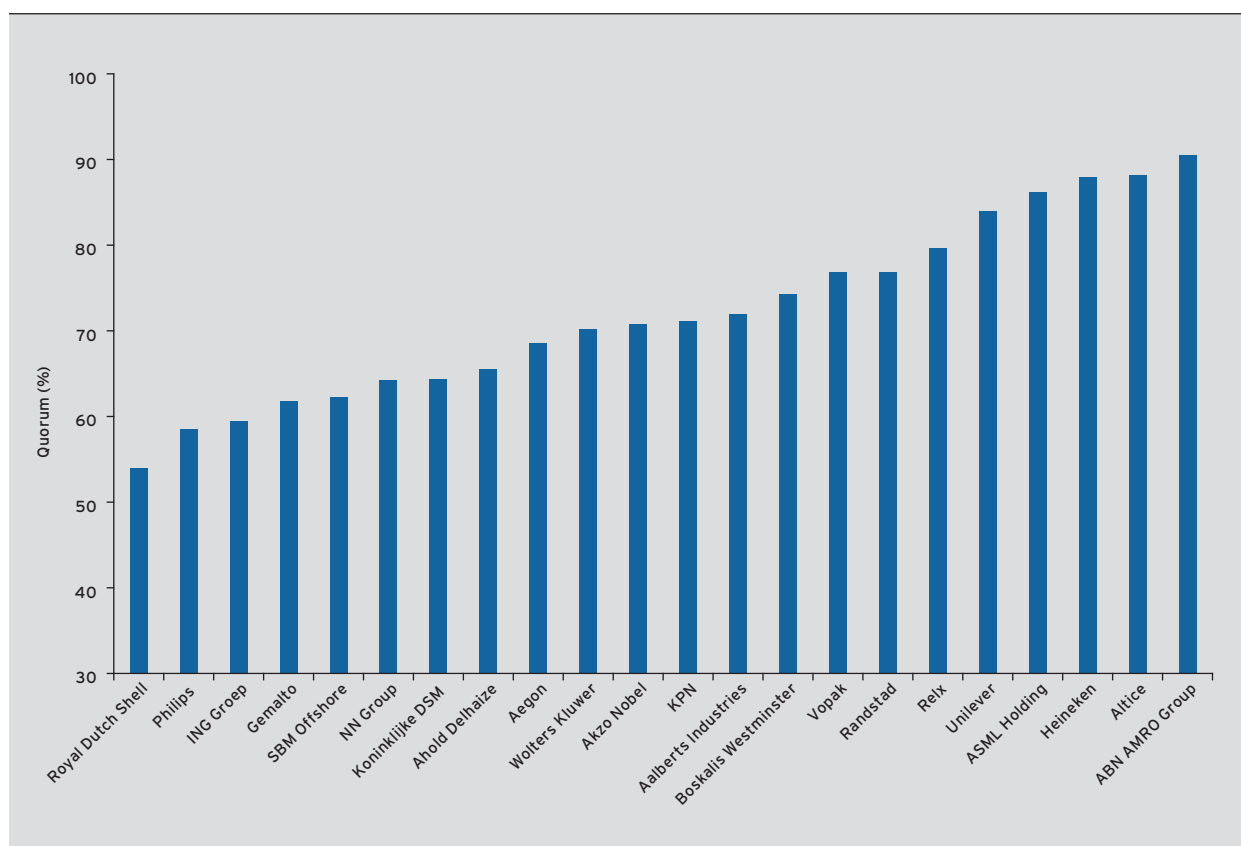
Graph 1: Average AGM quorum levels in the AEX and AMX between 2013 and 2017.



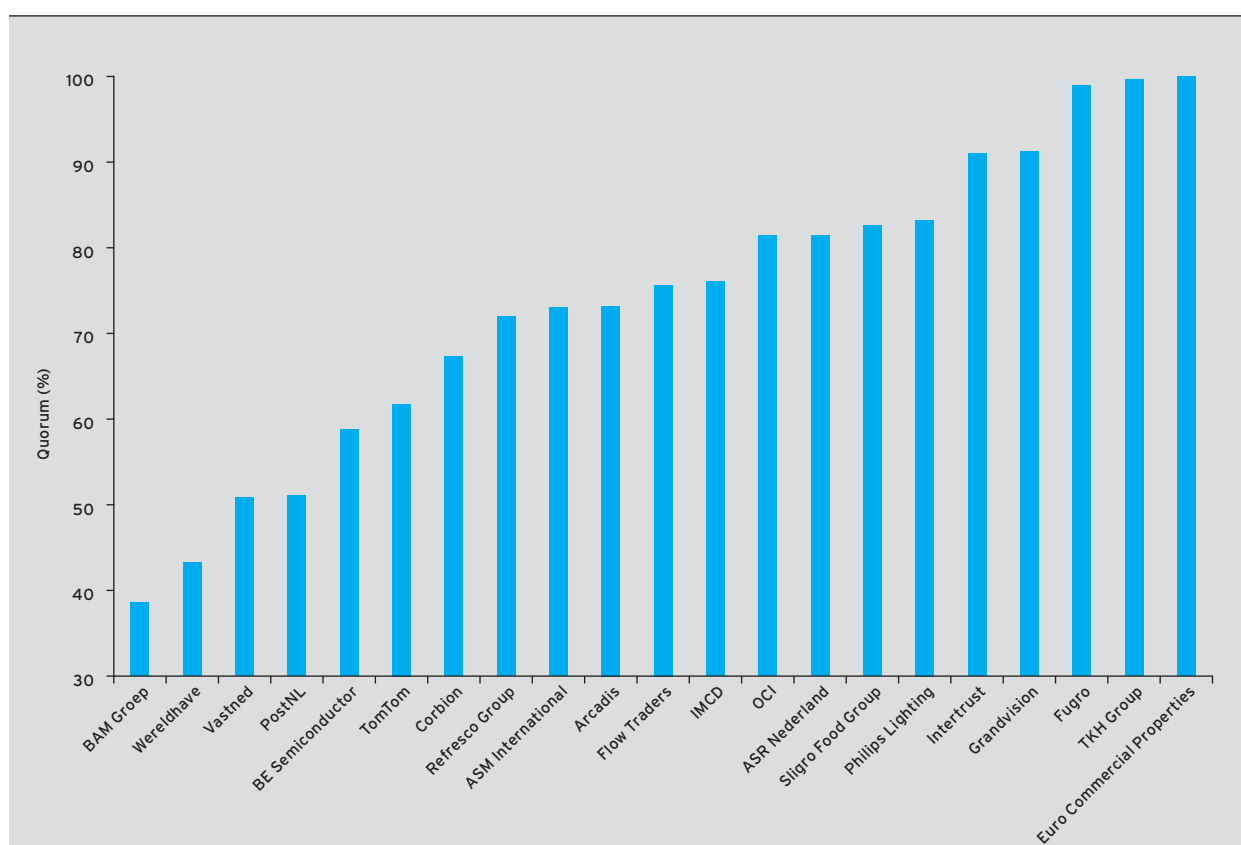
¹ The AEX reflects the performance of the 25 most actively traded shares listed on NYSE Euronext Amsterdam. See here: <https://www.euronext.com/en/products/indices/NL0000000107-XAMS/market-information>

² The AMX reflects the performance of the next 25 most actively traded shares listed on NYSE Euronext Amsterdam. See here: <https://www.euronext.com/en/products/indices/NL0000249274-XAMS/market-information>

Graph 2: Quorum levels at AEX companies during the 2017 reporting period.



Graph 3: Quorum levels at AMX companies during the 2017 reporting period.



1.2 Rejected resolutions

Among the 43 AEX and AMX companies in our sample that held their AGM between 1 August 2016 and 31 July 2017, one company recorded a management-proposed resolution that was rejected by shareholders: Royal BAM Group. Furthermore, one shareholder proposal at Royal Dutch Shell was rejected by shareholders.

Royal BAM Group NV

At the Royal BAM Group AGM³ in April 2017 one resolution (to authorize the Board to exclude pre-emptive rights from share issuances) was rejected. In the Dutch market, authorities to issue shares without pre-emptive rights is an ordinary resolution, but require a majority of two-thirds of the votes cast when less than 50% of the issued share capital is represented at the meeting⁴. Although 63.18% of shares voted at the meeting supported the resolution, 38.54% of issued share capital was represented. Therefore the resolution required a two-thirds majority to pass, which the resolution did not receive⁵. Both ISS and Glass Lewis recommended a vote in favour of the resolution.

Royal Dutch Shell plc

At the Royal Dutch Shell AGM⁶ in May 2017 a shareholder proposal (to request that Shell set and publish targets for reducing greenhouse gas emissions) was rejected. The resolution received support of 6.94% of shares present at the meeting⁷. Both ISS and Glass Lewis recommended to vote against the resolution.

1.3 Withdrawn resolutions

In comparison to 2016 there has been a decrease in the number of resolutions that were withdrawn prior to the AGM. During the reporting period one resolution in the AEX and AMX was withdrawn (at Royal Philips), as opposed to three resolutions in 2016.

Royal Philips NV

The Supervisory Board announced on 8 May 2017 that it had withdrawn item 5 (Remuneration of the Supervisory Board) from the 2017 AGM⁸. Philips issued the following statement: "While the Supervisory Board believes that the proposal to bring its remuneration in line with practices in a newly defined peer group is appropriate, it has chosen to withdraw it based on consultations with shareholders that made it clear that further discussions are needed to get to a broader consensus. The Supervisory Board will continue the discussions with all relevant parties before deciding on the best way forward for all stakeholders involved."

³ See here for the Royal BAM Group 2017 AGM Agenda:
<http://www.bam.com/sites/default/files/domain-606/agm-2017-02-agenda-and-notes-606-14888820301992971220.pdf>

⁴ Article 2:96a of the Dutch Civil Code

⁵ See here for the Royal BAM Group 2017 AGM Results:
<http://www.bam.com/sites/default/files/domain-606/documents/agm-2017-08-summary-adopted-resolutions-606-1492781123414221659.pdf>

⁶ See here for the Royal Dutch Shell 2017 AGM Agenda:
<http://www.shell.com/investors/retail-shareholder-information/annual-general-meeting.html>

⁷ See here for the Royal Dutch Shell 2017 voting results:
http://www.shell.com/investors/retail-shareholder-information/annual-general-meeting/_jcr_content/par/textimage_1328904083.stream/1495547689475/b92f8f2c052b80f0fc205e0365de39d53a1754c1945446e537fb48f4b030d6f4/2017-shell-agm-voting-results.pdf

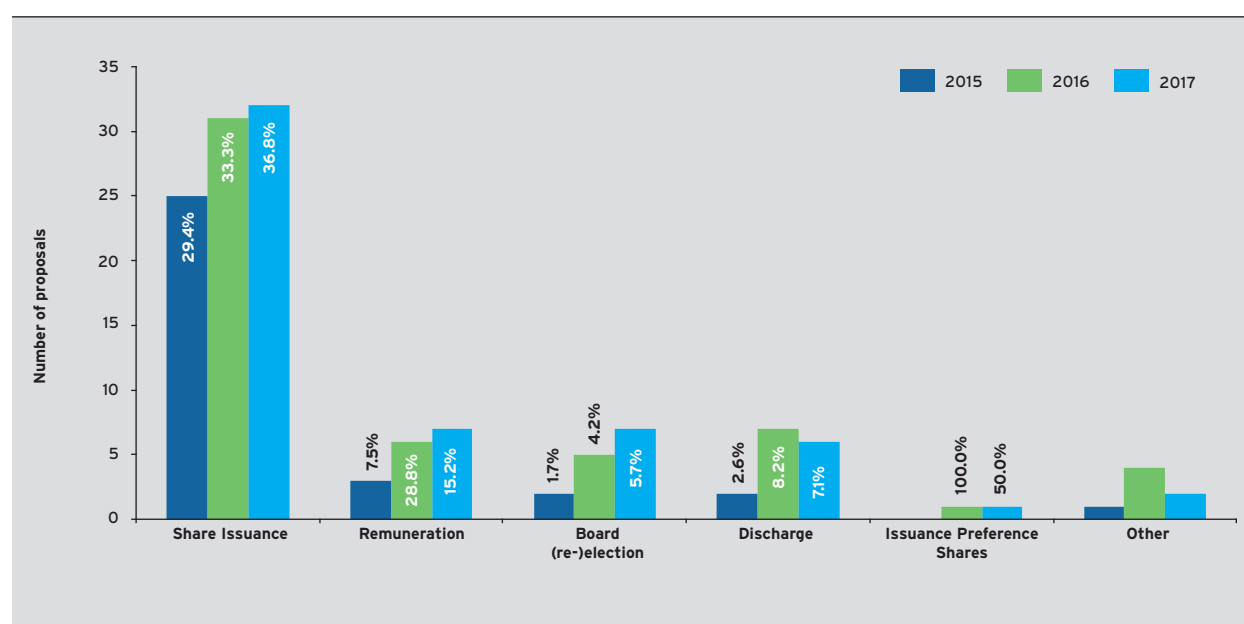
⁸ See here for the Royal Philips press release:
<https://www.philips.com/a-w/about/news/archive/standard/news/press/2017/20170508-update-on-the-2017-annual-general-meeting-of-shareholders.html>

1.4 Contested agenda items

Among our sample of 43 AEX and AMX companies that held their AGM between 1 August 2016 and 31 July 2017 we saw a slight increase in the number of companies and number of resolutions that received more than 10% shareholder opposition. The total number of resolutions that received more than 10% opposition amounted to 55 in 2017, compared to 54 resolutions in 2016.

The most commonly contested resolutions were authorities to issue shares and authorities to restrict or exclude pre-emptive rights. Remuneration related proposals were the second most contested resolutions. The third most contested resolutions were proposals related to Board elections.

Graph 4: Number of resolutions which received more than 10% against votes in the AEX and AMX (by resolution type). The percentages represent the ratio between the number of proposals that received more than 10% against and the total number of proposals in each category.



1.4.1 Authorities to issue shares with or without pre-emptive rights

Authorities to issue shares with pre-emptive rights are proposed as ordinary resolutions (requiring a simple majority). Authorities to issue shares without pre-emptive rights require a majority of two-thirds of the votes cast when less than 50% of the issued share capital is represented at the meeting. The Dutch general market practice is to request authorities of up to 20% of issued share capital (10% for general purposes and 10% for mergers and acquisitions) with pre-emptive rights, combined with a separate resolution authorising the disapplication of pre-emptive rights for the full amount.

On average, the companies in our sample have issued 2.09% of issued share capital in FY 2016. Three companies stood out in this respect: Ahold Delhaize, Royal Dutch Shell, and Intertrust issued 47.70%, 22.75% and 8.04% of issued share capital respectively in FY 2016. These companies issued their shares in relation to acquisitions. In each case, the company asked their shareholders for a separate authorisation to issue shares in relation to the specific acquisition.

While in the past we have seen a gradual shift in the authorisations sought for shares to be issued with and without pre-emptive rights, this year the change in authorisations sought appears to have stabilised. Only two companies have amended their authorisation request:

- Refresco increased their request to 10%+10% of issued share capital in 2017⁹ from 10% of issued share capital in 2016¹⁰.
- Gemalto requested an additional 20% without pre-emptive rights in case of a non-dilutive rights issue¹¹.

Both companies received more than 90% support on these resolutions.

1.4.2 Remuneration

Current legislation in the Netherlands requires listed companies to put remuneration up for a vote if there is a change in the remuneration policy¹². In January 2014 “claw back” legislation¹³ came into force. One element of this legislation requires listed companies to add the remuneration report as a discussion (non-voting) item to the AGM agenda before the approval of the annual accounts¹⁴. Unlike most European markets, under this provision remuneration is not put on the agenda for shareholder approval and only shareholders that attend the AGM can participate in the discussion of the remuneration report. Additionally, pursuant to the Decree on Restrained Remuneration Policies¹⁵, which came into effect on 1 January 2011, financial institutions that have received exceptional State support are prohibited from paying variable awards to their directors. Another law¹⁶ which came into force on 7 February 2015 caps the variable pay for financial institutions in the Netherlands at 20% of fixed remuneration.

Remuneration-related issues were the cause of intense debates at certain AGMs. Two companies that stood out in this regard were Altice and Philips.

Altice NV

Altice put forward seven remuneration-related proposals at their AGM¹⁷, four of which received more than 10% against votes¹⁸. ISS and Glass Lewis recommended against six of the seven remuneration related proposals. The resolutions were each passed with a majority of approximately 89%. Altice have a controlling shareholder, Next Alt S.a.r.l., holding 63.4% of voting rights.

Royal Philips NV

Philips amended its remuneration policy and its restricted stock plan for the Management Board. The resolutions received investor dissent of 24.80% and 27.51% respectively¹⁹. Both ISS and Glass Lewis recommended a vote in favour of the resolutions (while raising some concerns).

⁹ See here for the 2017 AGM Notice:

<https://www.refresco.com/wp-content/uploads/2017/04/Convocation-Agenda-and-Explanatory-Notes-AGM-May-2017.pdf>

¹⁰ See here for the 2016 AGM Notice:

<https://www.refresco.com/wp-content/uploads/2016/03/Convocation-Agenda-and-Explanatory-Notes-AGM-May-2016.pdf>

¹¹ <http://www.gemalto.com/investors/agm/agm-2017>

¹² Article 2:391 of the Dutch Civil Code.

¹³ <https://zoek.officielebekendmakingen.nl/Kst-32512-2.html>

¹⁴ Article 2:135 §5a of the Dutch Civil Code.

¹⁵ http://wetten.overheid.nl/BWBR0029246/geldigheidsdatum_30-10-2013

¹⁶ <https://zoek.officielebekendmakingen.nl/dossier/33964/h-ek-20142015-18-3?resultIndex=0&sorttype=1&sortorder=4>

¹⁷ <http://altice.net/wp-content/uploads/2016/07/Alt-20160906-explanatory-notes.pdf>.

¹⁸ <http://altice.net/wp-content/uploads/2016/07/20160704-Altice-AGM-Voting-results-form.pdf>

¹⁹ <https://www.philips.com/a-w/about/investor/shareholder-info/shareholder-meetings.html>

1.4.3 Director Elections

While the re-election of several directors of companies in the AEX and AMX were contested, two companies stood out in this respect: Royal Philips and KPN.

Royal Philips NV

Two directors were up for re-election at Philips at the 2017 AGM: Jeroen van der Veer and Christine Poon²⁰. Jeroen van der Veer and Christine Poon received 20.32% and 12.66% against votes respectively. They are both members of the remuneration committee. Both ISS and Glass Lewis recommended a vote in favour of the re-election of Mr van der Veer and Ms Poon.

KPN NV

At the 2017 AGM the re-election of Mr García Moreno Elizondo, a Supervisory Board member representing América Móvil, received a vote against of 14.68% of shares present at the meeting²¹. Mr Moreno Elizondo attended 68% of the board meetings²². While ISS recommended in favour of his re-election, Glass Lewis expressed concerns about his level of attendance in 2016 and recommended their clients to vote against.

1.4.4 Discharge of the Management Board or Supervisory Board

The discharge of the Management Board and Supervisory Board are common items on Dutch agendas and represent a vote of confidence in the decisions made during the financial year. Shareholder approval does not have any direct consequences and supporting the proposal does not affect the shareholders' right to bring legal action against directors for breaches of their duties. Voting against these items is a way for shareholders to express their lack of trust or dissatisfaction with the decisions made by the Management or Supervisory Board.

AkzoNobel

AkzoNobel received a total of 27.52% and 28.25% of votes against the discharge of the Management and Supervisory Board respectively²³. Several investors publicly expressed their discontent with the refusal of AkzoNobel's boards to enter into talks with PPG Industries relating to two takeover offers. An increased offer was made after the 2017 Akzo Nobel AGM which was also rejected by the boards. It appears that the level of dissent on these resolutions is linked to these failed offers.

ASM International

ASM International received a vote against the discharge of the Management and Supervisory Board of 16.20% and 13.59% respectively²⁴. We expect this level of dissent to be related to the Eminence Capital holding²⁵ in ASM International and their public campaign in relation to ASM International's shareholding of ASM Pacific²⁶.

PostNL

The Management Board received a vote against the discharge of 14.30% while the Supervisory Board received a vote against the discharge of 14.41% of votes present at the AGM²⁷. We expect the failed takeover negotiations between bpost and PostNL to be the cause of this level of investor dissent.

For all three companies, ISS and Glass Lewis recommended their clients to vote in favour of both the discharge of the Management and Supervisory Board.

²⁰ https://www.philips.com/c-dam/corporate/about-philips/investors/shareholder-info/agm-2017/Agenda_AGM_2017.pdf

²¹ http://media.corporate-ir.net/media_files/IROL/69/69978/AGM/2017/ResolutionsAGM2017.pdf

²² http://media.corporate-ir.net/media_files/IROL/69/69978/AGM/2017/AgendaAGM2017.2.pdf

²³ https://a96fa647e5e0932a529c-f3023a2080eb9170df7c92d8b2a39df1.ssl.cf3.rackcdn.com/voting_results_agm_2017.pdf

²⁴ <http://www.asm.com/Pages/Press-releases/ASM-INTERNATIONAL-NV-ANNOUNCES-VOTING-RESULTS-OF-ANNUAL-GENERAL-MEETING-OF-SHAREHOLDERS-2017-05.aspx>

²⁵ <https://www.afm.nl/en/professionals/registers/meldingenregisters/substantiele-deelnemingen/details?id=25869&Keywords=eminence>

²⁶ <http://www.asminvaluecreation.com/>

²⁷ <https://www.postnl.nl/en/about-postnl/about-us/our-governance/shareholders-meeting/>

2. PROXY ADVISORS

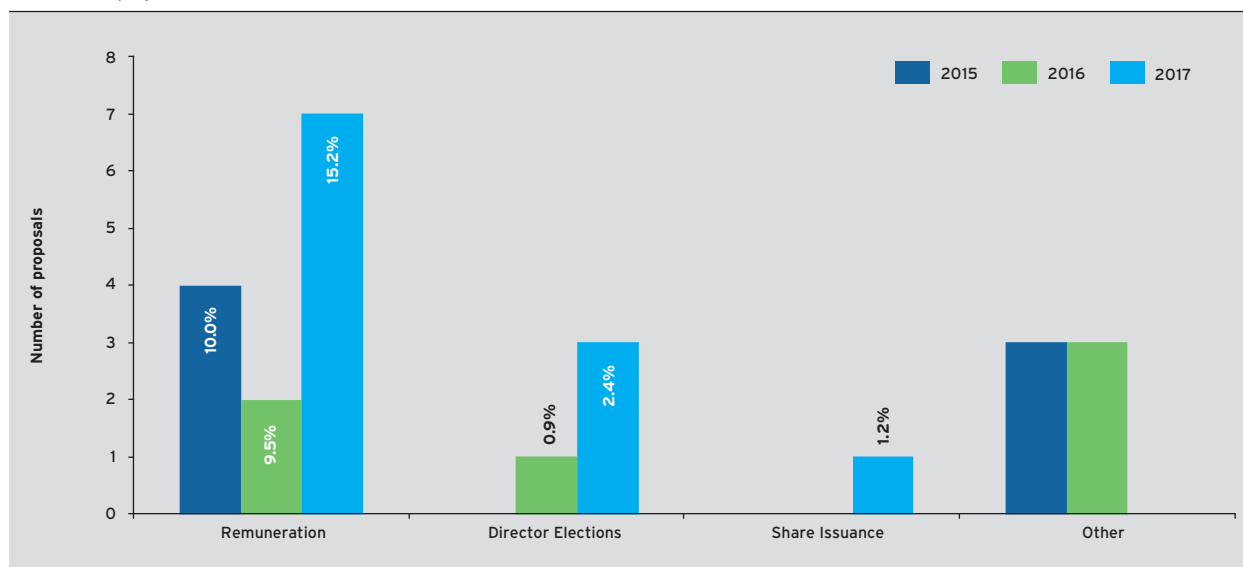
Many institutional investors rely on proxy advisory firms, such as ISS and Glass Lewis for meeting agenda analysis and vote recommendations to inform their voting decisions. A negative recommendation from a proxy advisor can have an adverse impact on the vote outcome of a given resolution.

2.1 Institutional Shareholder Services (ISS)

Institutional Shareholder Services²⁸ (ISS) is a leading provider of corporate governance solutions for asset owners, hedge funds, and asset service providers.

During the 2017 reporting period, four out of the 43 AEX and AMX companies surveyed received at least one against recommendation from ISS. The 2017 AGM season saw the highest number of negative recommendations from ISS in the last three years. Please note that withdrawn resolutions were not included.

Graph 5: Overview of the number of negative recommendations by ISS at AEX and AMX AGMs over the past three years. The percentages represent the ratio between the number of proposals that received a negative ISS recommendation and the total number of proposals in each category.



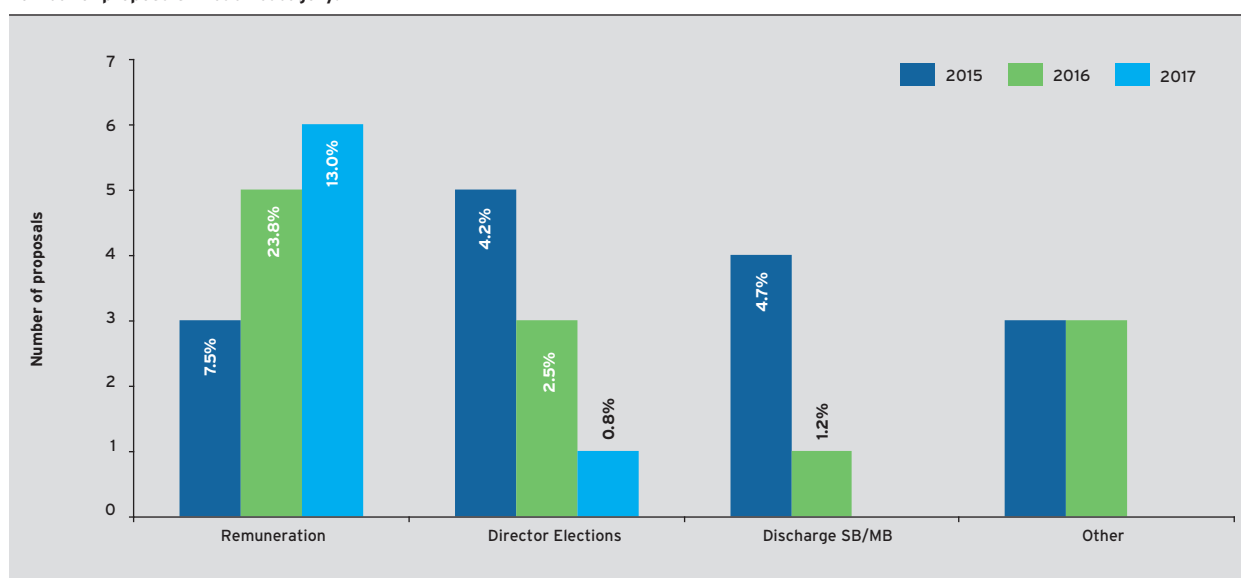
²⁸ <http://www.issgovernance.com/about/about-iss/>

2.2 Glass Lewis

Glass Lewis²⁹ is a leading provider of governance services that support engagement among institutional investors and corporations through its research, proxy vote management and technology platforms.

During the 2017 proxy season, four out of the 43 AEX and AMX companies surveyed received at least one against recommendation from Glass Lewis. Below is an overview of the number of resolutions of companies in our sample that have received negative recommendations from Glass Lewis at AEX and AMX AGMs over the past three years. The table shows that the 2017 had the lowest amount of against recommendations from Glass Lewis of the past three years. Please note that withdrawn resolutions were not included.

Graph 6: Overview of the number of negative recommendations by Glass Lewis at AEX and AMX AGMs over the past three years. The percentages represent the ratio between the number of proposals that received a negative Glass Lewis recommendation and the total number of proposals in each category.



²⁹ <http://www.glasslewis.com/about-glass-lewis/>

3. CORPORATE GOVERNANCE DEVELOPMENTS

3.1 Shareholder activism

During the 2017 AGM season shareholder activism became a more prominent feature in the Dutch market. Two leading Dutch issuers were the target of public campaigns by activist investors: AkzoNobel and ASM International.

ASM International NV

On 24 March 2017 ASM International announced that they had received a request from Eminence Capital to include a discussion item on the agenda of their AGM to discuss the equity ASM holds in ASM Pacific Technologies³⁰. On 20 April Eminence issued a press release stating that they would present a plan to “enhance strategic focus and increase shareholder value” by the “divestiture of ASM Pacific Technologies”³¹. On 24 April ASM International announced that it would initiate a sale of a partial stake of approximately 5% in ASM Pacific Technologies but that it still sees its stake in ASM Pacific Technologies as a strategic holding³². The company intended to use the proceeds of €248m for a new share buy-back programme³³. Eminence announced on 25 April 2017 that it was a small step in the right direction, but still urged ASM International to complete a full divestiture of its stake in ASM Pacific Technologies³⁴, which it further highlighted in its letter to shareholders on 31 July 2017³⁵.

It should be noted that during a campaign against ASM International in 2009, led by Hermes and Fursa, the Dutch Supreme Court ruled that the board is responsible for the strategy of the company and that it does not need to consult shareholders about subjects where the board has ultimate decision making authority³⁶.

AkzoNobel NV

AkzoNobel was targeted by Elliott Advisors³⁷ concerning the failed negotiation over a possible acquisition by PPG Industries. Between 9 March 2017 and 24 April 2017 Akzo Nobel turned down three offers without entering into detailed negotiations with PPG³⁸. After the initial offer AkzoNobel announced³⁹ that it was reviewing strategic options to separate its specialty chemicals business. A group of shareholders who were urging Akzo Nobel to enter into talks with PPG requested an EGM to vote on the dismissal of Chairman Antony Burgmans, who in their view was responsible for impeding the negotiation process. AkzoNobel denied this request⁴⁰. The Amsterdam Enterprise Chamber ruled that AkzoNobel was not obliged to call an EGM at the request of shareholders because the request was aimed at exercising control over AkzoNobel's strategy, while determining company strategy is reserved to the Management and Supervisory Board⁴¹. In a subsequent court proceeding concerning a request for an EGM about the dismissal of Antony Burgmans, the Amsterdam district court ruled⁴² that it would be premature to grant another EGM now that Akzo Nobel had convened an EGM for 8 September 2017 where the rejected PPG offers would be discussed.

On 16 August AkzoNobel announced that an agreement with Elliott was reached to support the separation of the specialty chemicals division and that two new board members would be proposed with a further third new board member to be nominated in consultation with shareholders at a later stage⁴³.

³⁰ <http://www.asm.com/Pages/Press-releases/ASM-INTERNATIONAL-NV-ANNOUNCES-REQUEST-BY-EMINENCE-CAPITAL-TO-INCLUDE-DISCUSSION-ITEM-ON-2017-AGM-AGENDA.aspx>

³¹ http://www.asmlvaluecreation.com/EminenceCapital_FINAL-Press-Release.pdf

³² <http://www.asm.com/Pages/Press-releases/ASM-INTERNATIONAL-NV-ANNOUNCES-INTENTION-TO-SELL-PARTIAL-STAKE-OF-APPROXIMATELY-5--IN-ASMPT.aspx>

³³ <http://www.asm.com/Pages/Press-releases/ASM-INTERNATIONAL-NV-RAISES---248-MILLION-FROM-5--STAKE-SALE-IN-ASMPT.aspx>

³⁴ http://www.asmlvaluecreation.com/PR_EminenceCapital-Statement-April-25-Final.pdf

³⁵ http://www.asmlvaluecreation.com/Eminence_Capital_Letter_to_ASMI_Shareholders_July-31-2017.pdf

³⁶ <http://deeplink.rechtspraak.nl/uitspraak?id=ECLI:NL:GHAMS:2009:BJ4688>

³⁷ www.valuecreationatakzo.com

³⁸ <https://fd.nl/ondernemen/1200953/akzonobel-wijst-derde-bod-ppg-af>

³⁹ <https://www.akzonobel.com/for-media/media-releases-and-features/akzonobel-reviewing-strategic-options-separate-specialty>

⁴⁰ <https://www.akzonobel.com/for-media/media-releases-and-features/akzonobel-strongly-supports-chairman-response-egm-request>

⁴¹ <http://deeplink.rechtspraak.nl/uitspraak?id=ECLI:NL:GHAMS:2017:1965>

⁴² <http://deeplink.rechtspraak.nl/uitspraak?id=ECLI:NL:RBAMS:2017:5845>

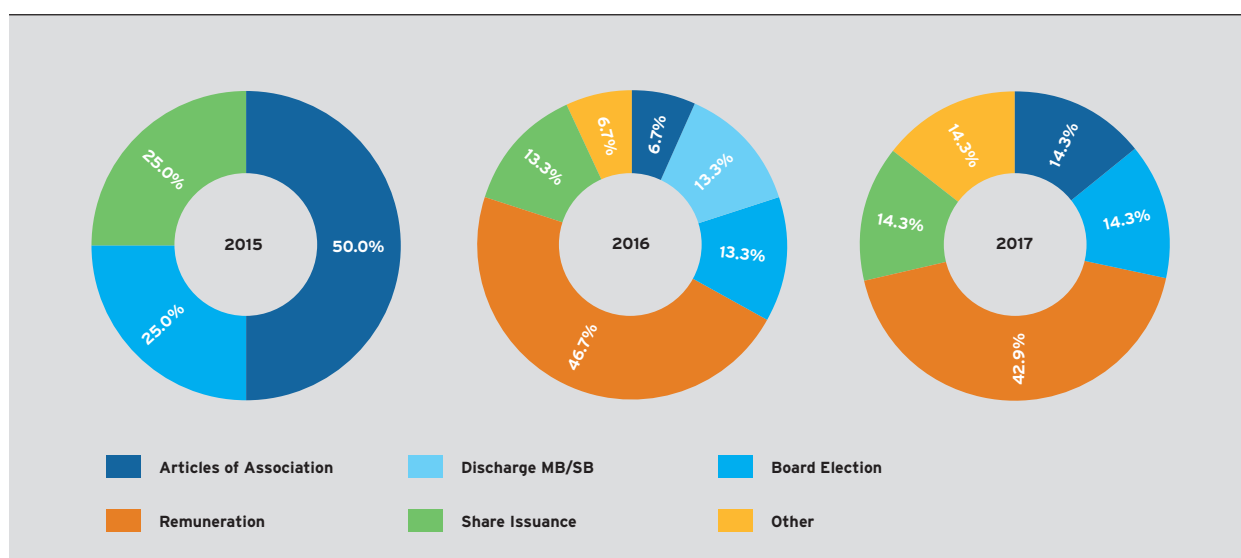
⁴³ <https://www.akzonobel.com/for-media/media-releases-and-features/akzonobel-reaches-agreement-elliott>

3.2 Eumedion

Eumedion⁴⁴ is a Dutch corporate governance and sustainability platform operating on behalf of institutional investors. Eumedion currently has about 60 institutional investor participants. The Eumedion investment committee⁴⁵, which consists of 25 participants, is responsible for their alert programme which covers the AGMs of all Dutch listed companies. Eumedion members receive an alert to highlight any highly controversial voting item on the agenda of a shareholders' meeting of a Dutch listed company. These alerts are not intended as a vote recommendation, but are aimed at providing additional information to Eumedion's participants.

Between 1 August 2016 and 31 July 2017, Eumedion issued an alert at five Dutch listed companies (for a total of seven resolutions). Remuneration related resolutions received the highest number of alerts (three resolutions). This is followed by resolutions related to changes in the articles of association, director elections and share issuance. The total number of alerts has decreased from fifteen resolutions in 2016 to seven resolutions in 2017.

Graph 7: Eumedion alerts issued on shareholder meetings at Dutch listed companies over the past three years.



⁴⁴ <https://www.eumedion.nl/en>

⁴⁵ <https://www.eumedion.nl/en/abouteumedion#investment-committee>

3.3 Dutch Corporate Governance Code

Following a consultation period on proposals for a revision of the Dutch Corporate Governance Code at the beginning of 2016⁴⁶, on 8 December 2016 the Corporate Governance Code Monitoring Committee published the revised Dutch Corporate Governance Code⁴⁷.

The most important change is the central role given to long-term value creation, and the introduction of 'culture' as a component of effective corporate governance. In addition, the Code has been updated in a number of other areas, compared to the Code adopted in 2008:

- A recommendation to disclose diversity targets in the Supervisory Board and the Management Board, in terms of the male-to-female ratio, expertise, competencies and background, promoting judicious decision-making. More transparency is required about targets, measures taken and results.
- An adjustment of the term of appointment for Supervisory Board members from three four-year periods to, the basic principle being that Supervisory Board members are appointed for two four-year periods. Reappointment after this is possible up to a maximum of a further two two-year periods, provided that reasons are given in the report of the Supervisory Board.
- An introduction of the requirement to report the absenteeism rate from Supervisory Board and committee meetings of each Supervisory Board member.
- The number of provisions concerning the topic of remuneration has been reduced compared to the 2008 Code, and the requirements are less detailed. An added component is that insights must be provided into the internal pay ratios, and it should be stated whether there have been any changes in these ratios compared to the previous financial year. It is up to the company to determine a representative reference group for this comparison.

Dutch listed companies are required to report in 2018 on compliance with the revised Code in the 2017 financial year. The condition for this is that the revised Code must be enshrined in Dutch law by the cabinet in 2017.

⁴⁶ <http://www.commissiecorporategovernance.nl/nieuws/2742/Publicatie-Consultatiedocument-herziening-Corporate-Governance-Code-op-11-februari-2016> and <http://www.commissiecorporategovernance.nl/?page=2840>

⁴⁷ <http://www.mccg.nl/?page=4738>

3.4 Debate on shareholder rights

During the year, international institutional investors raised concerns⁴⁸ that the right to call an EGM in the Netherlands (which, as stated in the Dutch Civil Code⁴⁹, arises if one or more shareholders represent at least one tenth of the share capital) does not appear to be guaranteed. This was highlighted on 20 May by the Enterprise Chamber which ruled⁵⁰ that Akzo Nobel was not obliged to convene a general meeting upon the request of seven shareholders (holding over 10% of issued share capital) because the request, with a sole agenda item to dismiss the Chairman Burgmans, was aimed at exercising control over AkzoNobel's strategy, while determining the strategy is reserved for the Management and Supervisory Board.

Another notable aspect of the Akzo Nobel discussion was to highlight that companies that wish to circumvent shareholder resolutions being added to the agenda of a general meeting can do so by calling general meetings within less than 60 days. According to the Dutch Civil Code⁵¹, one or more shareholders representing together at least 3% of the issued share capital can place an item on the agenda of the general meeting, if the request was made at least 60 days prior to the general meeting. Therefore shareholders are prevented from putting forward shareholder proposals at meetings called with shorter notice periods.

Finally, the debate also saw the introduction of government proposals. On 20 May 2017 Minister of Financial Affairs Henk Kamp sent a letter⁵² to Parliament with proposals to help companies confronted with a hostile acquisition attempt by offering them the possibility to invoke a "time out" period. On 31 May 2017, ten of the world's largest asset managers urged the Ministry in a letter⁵³ to refrain from the proposed one year "legal timeout" for hostile takeovers, stating that the proposals are "unduly harsh" and damaging to shareholder interests and would put "the Dutch market in an unfavourable light". In a second letter⁵⁴ to Parliament Minister Henk Kamp stated that he is also reviewing options to invoke such a "time out" even if the offer has been declared unconditional (which may be problematic as currently European rules prohibit frustration or delay to the progress of a public offer). The stated goal would be to force the new owner to negotiate with the board to meet the interests of all stakeholders. The Minister's statement seems to be in contrast to the Amsterdam Enterprise Chamber's ruling⁵⁵ in May 2017 that the board of a company is not obliged to enter into dialogue with a possible offeror. Kamp's letter emphasized that he is still reviewing different options for a better protection of Dutch companies. He is currently also in discussions with various stakeholders to explicitly discuss issues such as proportionality, including consequences for the investment climate in the Netherlands.

⁴⁸ <https://www.uss.co.uk/news/all-news/2017/04/uss-calls-for-meaningful-and-constructive-dialogue-between-akzonobel-and-ppg>

⁴⁹ <http://wetten.overheid.nl/BWBR0003045/2017-07-01#Boek2>

⁵⁰ <https://uitspraken.rechtspraak.nl/inziendocument?id=ECLI:NL:GHAMS:2017:1965>

⁵¹ <http://wetten.overheid.nl/BWBR0003045/2017-07-01#Boek2>

⁵² <https://www.rijksoverheid.nl/documenten/kamerstukken/2017/05/20/kamerbrief-overnames-van-bedrijven>

⁵³ https://www.icgn.org/sites/default/files/9.%20ICGN%20Letter%20Dutch%20anti%20takeover%20bill%20May%202017_1.pdf

⁵⁴ https://www.tweedekamer.nl/kamerstukken/brieven_regering/detail?id=2017Z09691&did=2017D20161

⁵⁵ <https://uitspraken.rechtspraak.nl/inziendocument?id=ECLI:NL:GHAMS:2017:1965>



Germany





Germany Highlights

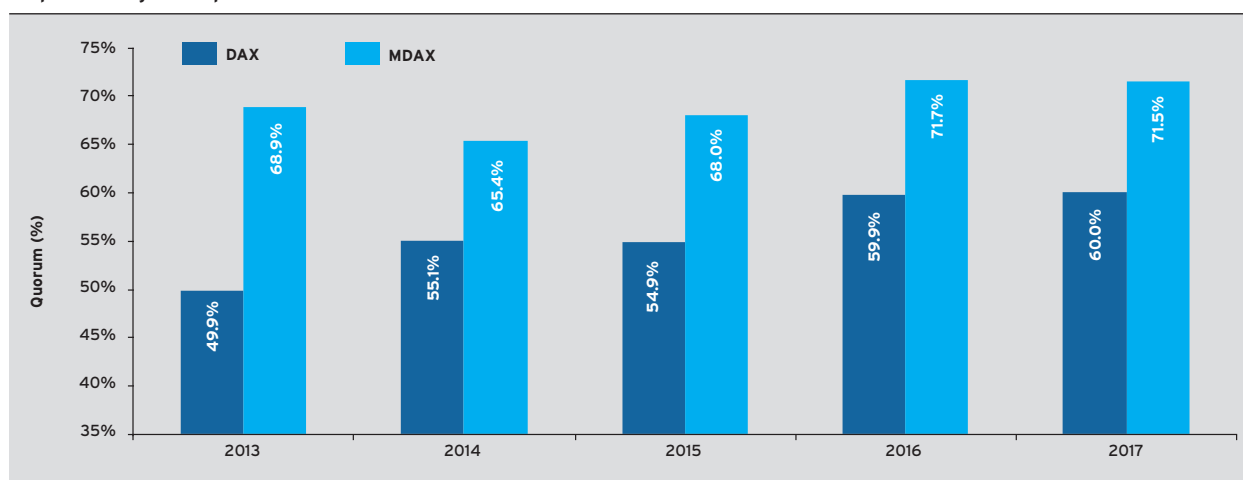
- The average quorum at the AGMs of DAX companies increased slightly from 59.9% in 2016 to 60.0% in 2017, while the average shareholder vote participation level at the AGMs of MDAX companies decreased slightly from 71.7% in 2016 to 71.5% in 2017.
- During the 2017 AGM season four DAX companies saw a board-proposed resolution rejected by shareholders (ProSiebenSat.1, Munich RE, Merck and Commerzbank). In the MDAX, one company saw a board-proposed resolutions rejected by shareholders (STADA Arzneimittel).
- In the DAX, 22 companies saw at least one resolution receive more than 10% shareholder opposition in 2017. The most commonly contested resolutions related to the discharge of the Management and Supervisory Boards followed by resolutions to approve the remuneration system for executives. The third most commonly contested resolutions related to Supervisory Board member elections.
- During the 2017 AGM season, 11 out of the 30 DAX companies received at least one negative recommendation from ISS. In comparison, ten companies in the DAX received a negative recommendation from Glass Lewis and 28 companies received a negative recommendation from DSW.

1. VOTING IN GERMANY

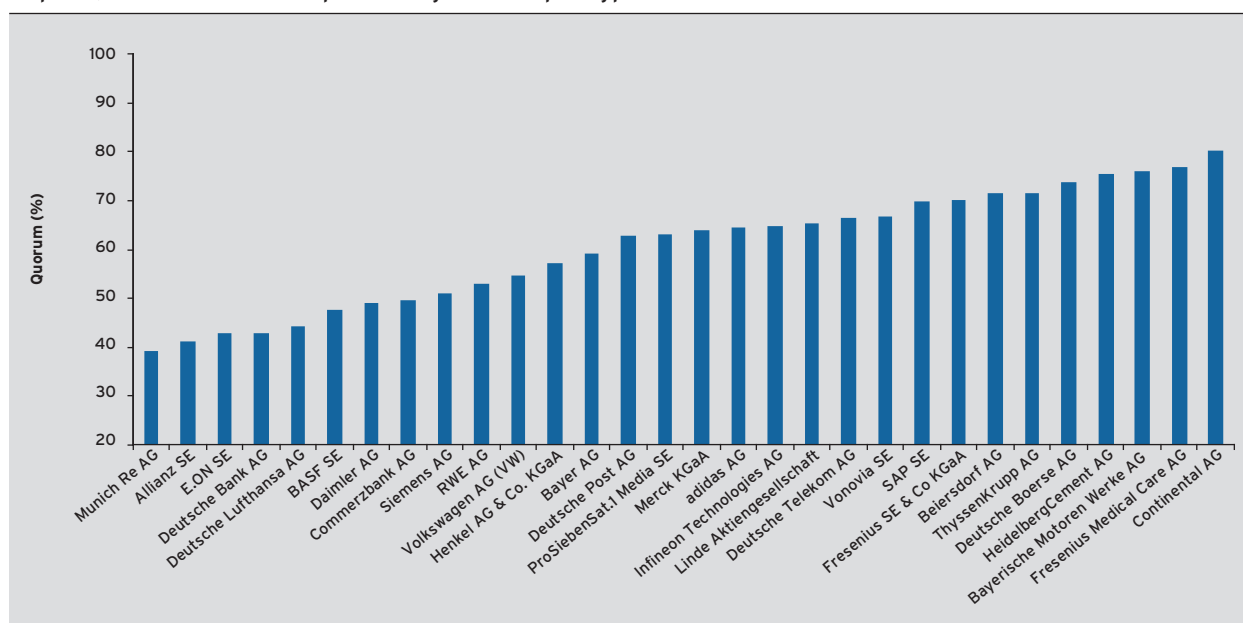
1.1 Quorum overview

Georgeson has reviewed the quorum levels of the DAX Index¹ and the MDAX Index² over the past five years. Our survey includes the companies that were part of the index as of 1 January 2017, and which held their AGMs between 1 August 2016 and the 31 July 2017. In the DAX the average quorum was 60.0%, a slight increase over the 2016 quorum of 59.9%, and a 10.1 percentage point increase from quorum levels in 2013. In the MDAX, the average quorum level is substantially higher on average. In 2017 the average quorum was 71.5%, representing only a slight decrease of 0.2 percentage points compared to the 2016 figure and 2.6 percentage points higher compared to the 2013 quorum levels.

Graph 1: Average AGM quorum levels in the DAX and MDAX between 2013 and 2017.



Graph 2: Quorum levels at DAX companies during the 2017 reporting period.



¹ The DAX Index tracks the segment of the largest and most important companies on the German equities market. It contains the shares of the 30 largest and most liquid companies admitted to the FWB Frankfurt Stock Exchange in the Prime Standard segment. The DAX represents about 80% of the aggregated prime standard's market cap. See here: http://www.dax-indices.com/EN/MediaLibrary/Document/Factsheet_DAX.pdf.

² The MDAX tracks the segment of mid-sized industrials. It contains the shares of the 50 companies listed in the Prime Segment of Deutsche Boerse, which follow the 30 DAX companies with regard to market cap and stock exchange turnover. See here: http://dax-indices.com/EN/MediaLibrary/Document/FS_MDAX.pdf.

1.2 Rejected resolutions

DAX

Within the reporting period, four companies had management-proposed resolutions rejected by shareholders, with three of them relating to executive remuneration. At the AGMs of ProSiebenSat.1 Media SE, Muenchener Rueckversicherungs-Gesellschaft AG and Merck KGaA, shareholders rejected a non-binding vote on the remuneration system, while at Commerzbank shareholders rejected article changes proposed by the company.

ProSiebenSat.1 Media SE

At its 12 May 2017 AGM, ProSiebenSat.1 requested approval for a new compensation system. The non-binding resolution was rejected with over 66% of shareholders represented at the AGM voting against this resolution.

Handelsblatt³ reported that the German shareholder association, DSW, criticised the company's remuneration system, including the potential to pay its CEO Thomas Ebeling a total salary up to €9.5m, which represented 950% of his base salary. In 2016, Thomas Eberling had received a total remuneration package of €3.6m, comprising a base salary of €1.1m and bonus payments of €2.5m. Furthermore, a speaker for DSW concluded that the company's remuneration system was opaque and would allow for excessive remuneration in general.

Muenchener Rueckversicherungs-Gesellschaft AG (Munich RE)

Munich RE only received support from 34.3% of its voting shareholders for its executive remuneration system at their 26 April 2017 AGM.

While Munich RE had made no change to its remuneration system compared to the previous year, shareholders had approved the same resolution as part of the 2016 AGM agenda with 84.75% of votes in favour. In advance of the 2017 AGM, shareholders had criticised the company for a lack of independence on its remuneration committee, lack of disclosure on performance criteria and lack of response to issued raised previously.

Merck KGaA

Merck KGaA had their resolution on the remuneration system rejected by shareholders at their 28 April 2017 AGM. Only 46% of voting shareholder supported the non-binding resolution. The last time Merck had this item on the agenda was at their 2012 AGM where 86.7% of voting shareholders voted in favour of this proposal.

Commerzbank AG

Commerzbank proposed an article amendment at their 3 May 2017 AGM, which would have allowed the company to call an EGM with a 10-day notice period in extraordinary circumstances. A large number of shareholders opposed this resolution as they were concerned that they would not have sufficient time to register and vote at such an EGM. Even though the circumstances under which such an EGM could be called were clearly defined, only 66.44% of voting shareholders supported this resolution while a 2/3 majority was required to pass this item.

In a statement following the AGM⁴, the company explained that "Commerzbank's intention with item 9 had been to have the Annual General Meeting decide that the Company could apply a shortened notice period - subject to certain conditions - for convening general shareholders' meetings to adopt resolutions on a capital increase. This would have been a precautionary measure [...] for the theoretical case that the prerequisites for intervention by a supervisory authority under the German Recovery and Resolution Act had been fulfilled. Commerzbank is keeping its option open to put the topic to the vote once more."

³ <http://www.handelsblatt.com/unternehmen/it-medien/pro-sieben-sat-1-aktionaere-lassen-verguetungssystem-durchfallen/19794172.html>

⁴ https://www.commerzbank.com/media/aktionaere/haupt/2017_5/IR_release_end.pdf

MDAX

Across the MDAX, only one board proposal was rejected by shareholders.

STADA Arzneimittel AG

STADA faced a number of challenges in connection with their 2016 AGM which was originally proposed for 9 June 2016. Active Ownership Capital ("AOC"), an activist investor announced on 9 May 2016 that it had submitted a shareholder proposal to remove and replace five of the incumbent six shareholder representatives on the Supervisory Board of the company. The AGM was subsequently moved to 26 August 2016 to allow the company to address the issues of long board tenure (between 33 and 13 years) and give sufficient time for STADA to recruit new candidates. In advance of the August AGM, AOC again submitted two shareholder proposals to remove two incumbent Supervisory Board members, whose seats were not up for election and to replace them by its own candidates. Furthermore, AOC submitted two counter motions against two of the four proposed candidates by STADA.

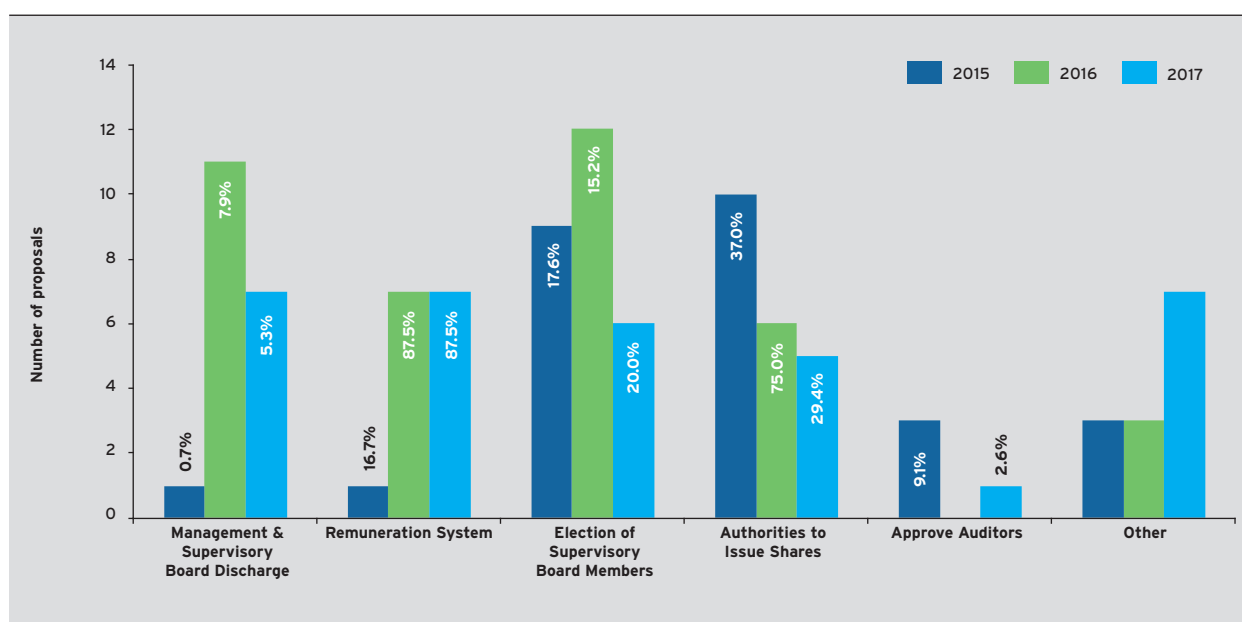
After a 14-hour long AGM, the meeting concluded with one of the two AOC shareholder proposals, i.e. the removal of the incumbent chairman Martin Abend and election of Eric Cornut receiving enough shareholder votes to pass. All other proposals put forward by AOC were rejected by shareholders.

1.3 Contested resolutions

Among our sample of 30 DAX companies that held their AGMs during the reporting period, 22 companies saw at least one management-proposed resolution receive more than 10% shareholder opposition (compared to 18 in 2016). The total number of resolutions that received over 10% opposition amounted to 33 proposals (including rejected resolutions discussed in section 1.2), down from 39 proposals in 2016.

The most commonly contested resolutions related to Management and Supervisory Board discharge. The second most contested resolution was the remuneration system proposal, while the third most contested proposal was the election of Supervisory Board members.

Graph 3: Number of resolutions which received more than 10% against votes in the DAX (by resolution type). The percentages represent the ratio between the number of proposals that received more than 10% against and the total number of proposals in each category.



1.3.1 Discharge of the Management and Supervisory Boards

It is a legal requirement in Germany for companies to propose a discharge vote on the Supervisory Board and on the Management Board. The vote is largely symbolic as the legal position of shareholders and board members do not change based on the results of this vote. This has led to an increased number of shareholders voting against the discharge based on Corporate Governance concerns which includes lack of individual supervisory board members' meeting attendance records, concerns about the current executive remuneration system, a lack of disclosure for it or insufficient changes made.

While it is common practice to propose the discharge of the whole Supervisory Board and the whole Management Board, each as a single resolution, in many cases at the AGM itself the vote is split into individual discharge votes on each board member.

In cases where shareholders consider the discharge of a single member (or group of management or supervisory board members) to be controversial, this practice would allow shareholders present at the meeting to grant discharge for the remaining members.

The companies with the highest level of opposition on Management and Supervisory Board discharge were:

- SAP SE (50.5% in favour of the discharge of the Supervisory Board)
- Fresenius Medical Care AG & Co. KGAA (86.5% in favour of the discharge of the Supervisory Board)

1.3.2 Vote on the executive remuneration system

Since the introduction of the German Act on the Appropriateness of Management Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung - "VorstAG"⁵) in August 2009, DAX and MDAX companies have put their executive remuneration system up for a non-binding shareholder vote. This is only required when the Company is proposing changes to its remuneration system, and no company has so far introduced a voluntary annual remuneration vote. Since the ratification of the Act it has also been the responsibility of the Supervisory Board to ensure that the Company's remuneration system is set out in line with shareholders' expectations, that there be a link between pay and performance and that the system be long-term oriented.

Despite companies only proposing votes on the remuneration system, and only doing so when a change to the system is proposed, investors and proxy advisors increasingly use this non-binding vote as a way to show their discontent over the level of disclosure provided in the remuneration report and over the remuneration levels awarded in the previous year. In addition, the German investment funds association BVI (Bundesverband Investment und Asset Management e.V.) clarifies in their voting guidelines⁶ for German AGMs, that companies should propose a vote on their remuneration system at least every five years, even if no changes have been made. Failure to hold a vote at least every five years or if a change to the system has been made, would result in the BVI recommending its members to vote against the discharge of the Management and Supervisory Boards at the companies in question.

While in the past votes on the executive remuneration system have typically received high approval rates (well above 90%), since 2016 the approval rates for almost all companies was below that threshold. Based on our experience, shareholders have become more critical of executive remuneration levels and disclosures at German issuers. This is partially driven by the fact that most other leading European markets have introduced annual remuneration-related votes in recent years.

⁵ https://www.bundesanzeiger-verlag.de/fileadmin/Betrifft-Unternehmen/Arbeitshilfen/Transparenz/VorstAG_Managergehaelter.pdf

⁶ https://www.bvi.de/fileadmin/user_upload/Regulierung/Branchenstandards/ALHV/ALHV_2017.pdf

Among the eight remuneration system proposals seen during the reporting period, seven out of eight remuneration system proposals received more than 10% votes against. This was the same number as in 2016 and compared to only one in 2015.

The seven remuneration proposals that received more than 10% vote in opposition in 2017 were (ordered by lowest to highest vote in support):

- ProSiebenSat.1 Media SE (33.2% in favour)
- Muenchener Rueckversicherungs-Gesellschaft AG (34.3% in favour)
- Merck KGaA (46% in favour)
- Beiersdorf AG (77% in favour)
- Continental AG (80.9% in favour)
- Volkswagen AG (81.0% in favour)
- RWE AG (81.3% in favour)

1.3.3 Supervisory Board member elections

During the reporting period six supervisory board candidates received more than 10% opposition on their election at four companies, compared to 12 in 2016.

Based on feedback Georgeson has gathered from investors and proxy advisors, the main reasons to vote or recommend against the election of Supervisory Board members in Germany continue to be concerns relating to the overall independence of the Supervisory Board (including for tenure reasons) and overboarding concerns.

As up to 50% of the Supervisory Board in Germany is required by law⁷ to comprise employee representatives (elected separately by employees of the Company) many institutional investors require at least one-third of the full Supervisory Board and/or half of the shareholder-elected members to be independent.

Overboarding concerns are generally raised for supervisory board candidates who have a significant number of other board seats or serve as executives at other companies. Shareholders are also increasingly likely to consider poor attendance or undisclosed attendance records for board members as reasons to vote against the re-election of a Supervisory board member.

The companies with the highest level of opposition on supervisory member elections among our sample were:

- Allianz SE (Michael Diekmann- 68%; Herbert Hainer- 81.9% in favour)
- Bayer AG (Paul Achleitner- 83.1%; Werner Wenning - 84.9% in favour)
- Daimler AG (Clemens Boersig- 85.9% in favour)
- Infineon Technologies AG (Geraldine Picaud- 88.8% in favour)

⁷ <http://www.gesetze-im-internet.de/mitbestg/>

1.3.4 General authorities to issue shares

German companies routinely request shareholder authority to issue shares up to 50% of the current issued share capital, generally over a period of up to five years. These authorities are split between “authorised” and “conditional” capital, but are subject to the same overall dilution limits.

It has been common practice in the past to disregard any outstanding authorizations from previous AGMs which may have only been used partially, potentially allowing the accumulation of several authorities over a number of years. However, in recent years it has become common practice to either cancel any outstanding authorities or to incorporate them as part of the new authority.

While the main proxy advisors continue to accept the exclusion of pre-emptive rights for up to 20% of the issued capital over a period of five years in the German market, in recent years investor attitudes towards share issuance authorities (in particular without pre-emptive rights) have become significantly stricter.

During the reporting period five proposals relating to share issuance received more than 10% in opposition, compared to three in 2016:

- Vonovia SE (79.0% in favour)
- Muenchener Rueckversicherungs-Gesellschaft AG (79.5% in favour)
- E.ON SE (81.1% in favour)
- Merck KGaA (81.6% in favour)
- Deutsche Telekom AG (88.9% in favour)

2. PROXY ADVISORS

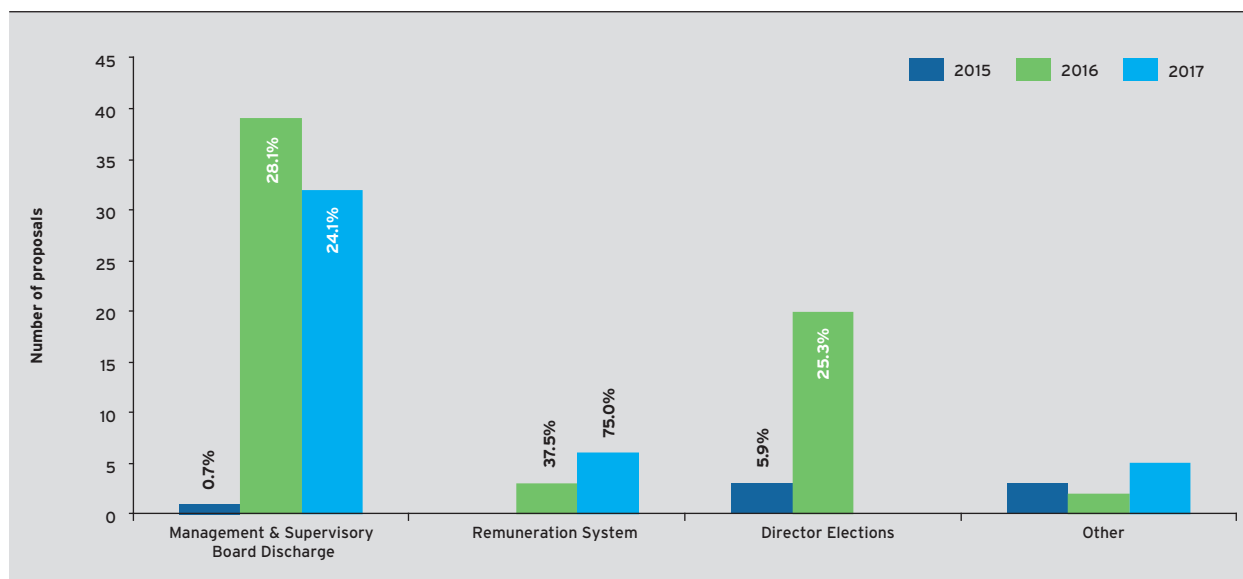
Many institutional investors rely on proxy advisory firms, such as ISS, Glass Lewis and DSW, for meeting agenda analysis and vote recommendations to inform their voting decisions. A negative recommendation from a proxy advisor can have an adverse impact on the vote outcome of a given resolution.

2.1 ISS

Institutional Shareholder Services⁸ (ISS) is a leading provider of corporate governance solutions for asset owners, hedge funds, and asset service providers.

During the 2017 AGM season, 11 companies out of the DAX index received at least one against recommendation from ISS. The total number of resolutions where ISS recommended its clients to vote against amounts to 43, compared to 64 in 2016.

Graph 4: Overview of negative recommendations by ISS at DAX AGMs over the past three years. The percentages represent the ratio between the number of proposals that received a negative ISS recommendation and the total number of proposals in each category.



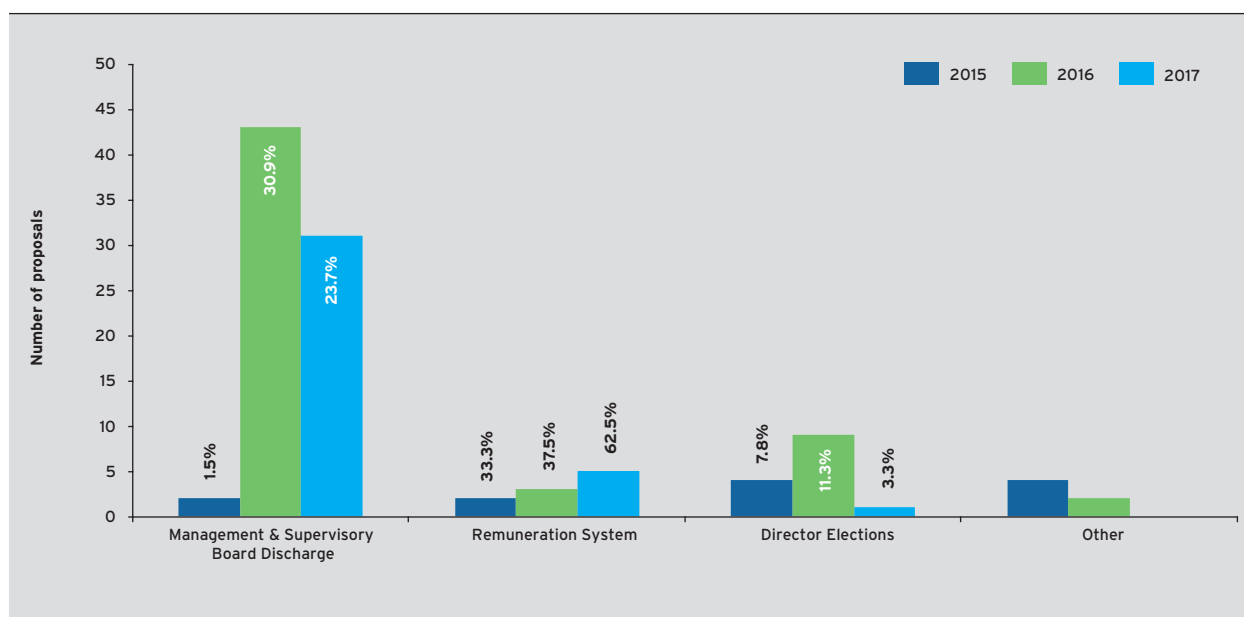
⁸ <http://www.issgovernance.com/about/about-iss/>

2.2 Glass Lewis

Glass Lewis⁹ is a leading provider of governance services that support engagement among institutional investors and corporations through its research, proxy vote management and technology platforms.

During the 2017 AGM season, ten companies out of the DAX index received at least one against recommendation from Glass Lewis. The total number of resolutions where Glass Lewis recommended its client's to vote against amounts to 37, compared to 57 in 2016.

Graph 5: Overview of the number of negative recommendations by Glass Lewis at DAX AGMs over the past three years. The percentages represent the ratio between the number of proposals that received a negative Glass Lewis recommendation and the total number of proposals in each category.



⁹ <http://www.glasslewis.com/about-glass-lewis/>

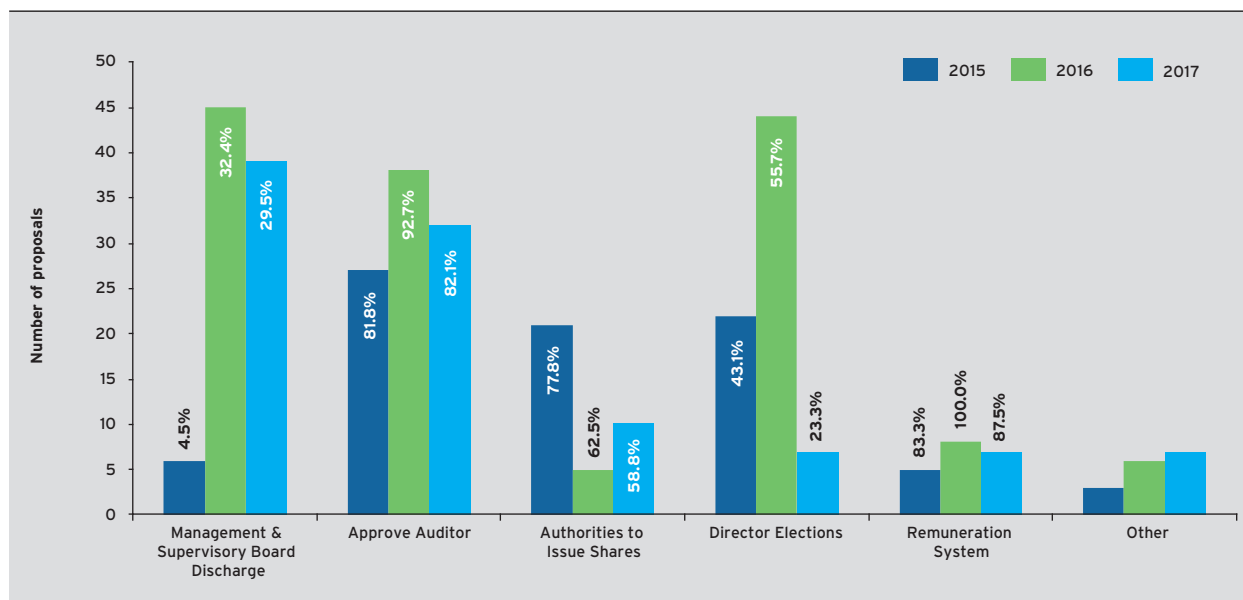
2.3 DSW

The Deutsche Schutzvereinigung für Wertpapierbesitz e.V.¹⁰ (DSW) is Germany's oldest and largest shareholder association. It is also a member of the Expert Corporate Governance Service¹¹ (ECGS), a partnership of independent local proxy advisors.

Founded in 1947, DSW now has about 25,000 members, which includes institutional and retail investors. DSW represents its members at approximately 650 annual general meetings per year and aims to publish voting recommendations for all AGM resolutions. The below mentioned recommendations are based on the reports issued by DSW through ECGS whose clients comprise institutional investors.

During the 2017 proxy season, 28 companies received at least one against recommendation from DSW. The majority of against recommendations related to the discharge of the Management and Supervisory board members, followed by the appointment of the auditor.

Graph 6: Overview of the number of negative recommendations by DSW at DAX AGMs over the past three years. The percentages represent the ratio between the number of proposals that received a negative DSW recommendation and the total number of proposals in each category.



¹⁰ <http://www.dsw-info.de/Englisch.943.0.html>

¹¹ <http://www.ecgs.org/partners>

3. CORPORATE GOVERNANCE DEVELOPMENTS

3.1 German Corporate Governance Code

The German Corporate Governance Commission published¹² a new edition of the German Corporate Governance Code in February 2017. Furthermore, Rolf Nonnenmacher replaced Manfred Gentz as chairman of the Commission in March 2017.

The Code's Preamble now states that "institutional investors are particularly important to companies and are expected to exercise their rights of ownership actively and responsibly, in accordance with transparent principles which also respect the concept of sustainability." Further amendments to the Code include provisions that: "companies shall publish the basic features of their Compliance Management System", "employees shall be given the opportunity of anonymously reporting suspected breaches of the law within the company", and "the Supervisory Board shall in future prepare a profile of skills and expertise for the entire Supervisory Board." Finally, the Code now recommends that "the Chairman of the Supervisory Board be prepared [...] to discuss topics relevant to the Supervisory Board with investors."

3.2 Draft legislation on pay reforms at listed companies

In advance of the German federal election, scheduled for 24 September 2017, the German Social Democratic Party (SPD) unveiled at the end of February draft legislation that would limit the tax deductibility of board member salaries in excess of €500,000. In addition, the pensions of former board members would no longer be tax deductible as an operating cost.

Other proposals in the bill include a provision for the company's AGM to determine the maximum difference between a board member salary and the companies' average salary. In addition, an issuer's Supervisory Board would be authorized to reclaim pension contributions of board members who departed due to poor performance.

The Financial Times reported¹³ that the "focus on executive pay expected to sharpen as German poll looms" and it is expected that this subject will be used by parties to garner votes in the upcoming election.

3.3 Remuneration Transparency Law

A new law giving employees in Germany rights to information about the pay of co-workers was introduced on 1 July 2017. The law imposes new reporting requirements on companies to reveal how they maintain fair pay. The Remuneration Transparency Law¹⁴ applies to legal entities with more than 200 employees. It gives employees the right to ask for details of the average pay of a minimum of six employees of the opposite sex in comparable positions.

Furthermore, employers with more than 500 employees are also strongly encouraged to establish operational control procedures to verify regularly that their payment structure meets the requirements for equal pay. In addition, employers with more than 500 employees, who are further required to publish a status report under the German Commercial Code, are obliged to combine their status report with a public report on equal pay.

¹² <http://www.dcgk.de/en/kommission-33/die-kommission-im-dialog/details/proposed-amendments-to-code-for-2017-published-183.html>

¹³ <https://www.ft.com/content/f1733428-157c-11e7-b0c1-37e417ee6c76>

¹⁴ <https://www.bmfsfj.de/blob/117322/cbecce81bb4ce80ad969176e3a6b8293/das-entgelttransparenzgesetz-informationen-zum-gesetz-zur-foerderung-der-entgelttransparenz-data.pdf>



Switzerland





Switzerland Highlights

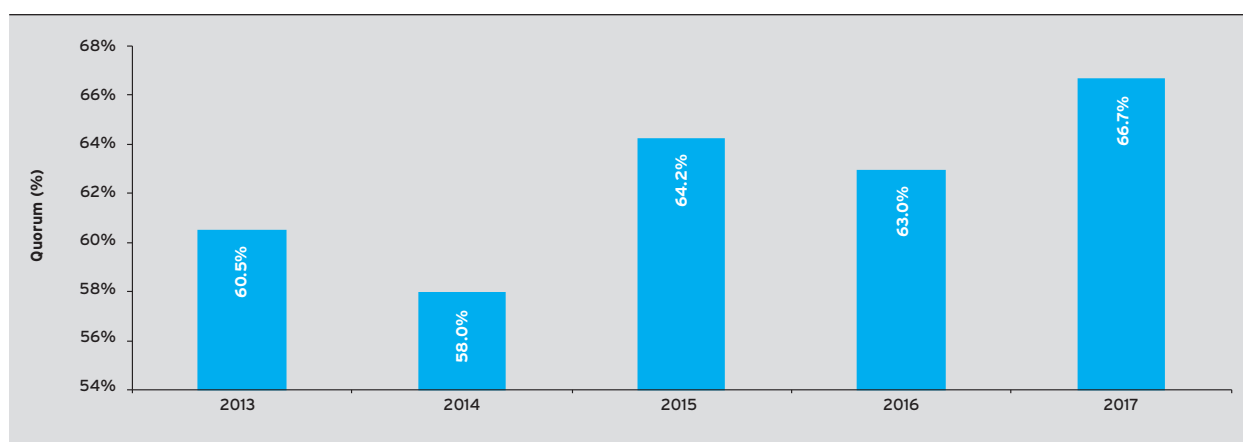
- The average quorum at the AGMs of SMI companies increased from 63.0% in 2016 to 66.7% in 2017. In the SMI MID, the average quorum level increased from 70.3% in 2016 to 71.2% in 2017.
- During the 2017 AGM season one SMI companies saw board-proposed resolutions rejected by shareholders (Sika). In the SMI MID, two companies saw board-proposed resolutions rejected by shareholders (GAM Holding, Georg Fischer).
- In the SMI, 15 companies saw at least one resolution receive more than 10% shareholder opposition in 2017. The most commonly contested resolutions were director elections. The second most commonly contested resolutions were relating to the discharge board and senior management, followed by the advisory vote on the remuneration report
- During the 2017 AGM season, ten out of the 20 SMI companies received at least one negative recommendation from ISS. In comparison, 11 SMI companies received a negative recommendation from Glass Lewis and 18 companies received a negative recommendation from Ethos.

1. VOTING IN SWITZERLAND

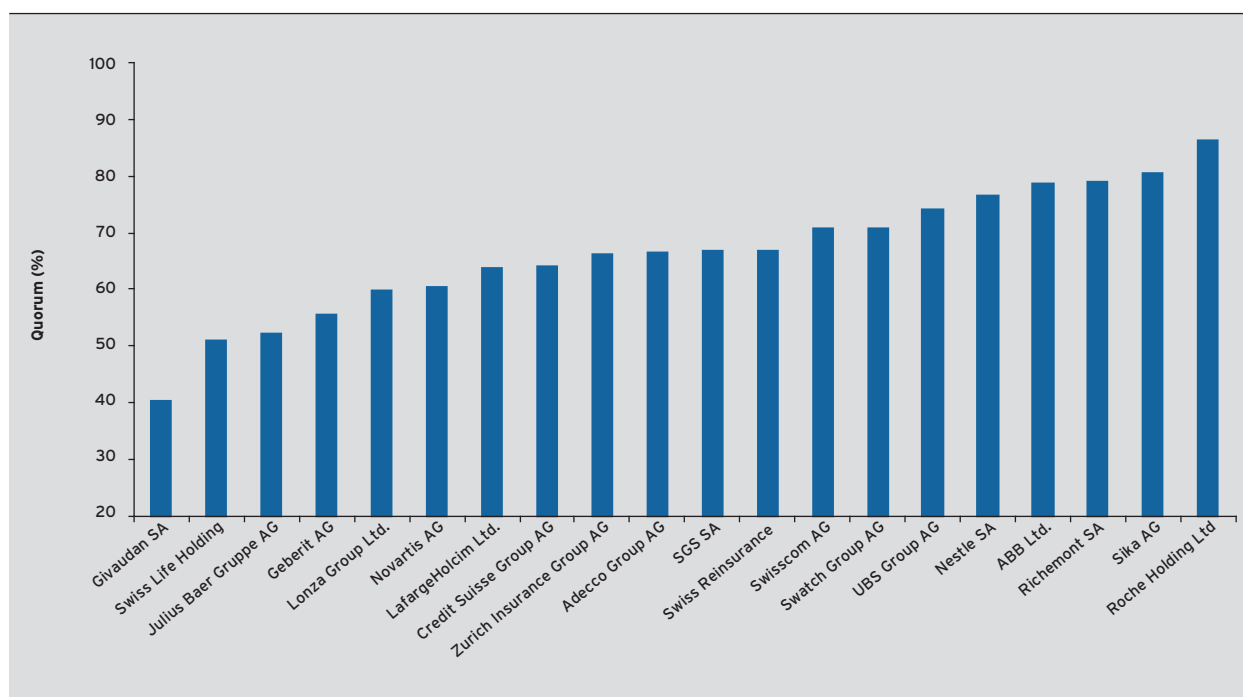
1.1 Quorum overview

Georgeson has reviewed the quorum levels of the 20 companies which comprise the SMI¹ index over the past five years. We have taken into account companies that held their AGM between 1 August 2016 and 31 July 2017. The average quorum for the SMI was 66.7% during the reporting period. This represents an increase of 3.7 percentage points compared to 2016 and 6.2 percentage points over quorum levels in 2013. In addition, it is noted that the average quorum of the SMI MID² was 71.2% during the reporting period, an increase of 0.9 percentage points over quorum levels in 2016.

Graph 1: Average AGM quorum levels in the SMI between 2013 and 2017.



Graph 2: Quorum levels at SMI companies during the 2017 reporting period.



¹ The SMI is Switzerland's most important stock index and comprises the 20 largest equities in the SPI (a selection of companies which includes all Swiss companies listed on the SIX Swiss Exchange). The SMI represents about 85% of the total capitalisation of the Swiss equity market. See here: http://www.six-swiss-exchange.com/indices/data_centre/shares/smi_en.html.

² The SMI MID (SMIM) comprises the 30 largest mid-cap stocks in the Swiss equity market that are not included in the blue chip SMI index. See here: https://www.six-swiss-exchange.com/indices/data_centre/shares/smi_mid_en.html. Our quorum sample excludes Sika, Swiss Prime Site and Sunrise all of whom had not published their attendance quorum at the time of our analysis.

1.2 Rejected resolutions

SMI

Among SMI companies, only one company had management proposals rejected by shareholders. This was at Sika, where there has been a long-standing dispute between the founding family, and the Board.

Sika

Sika's April 2017 AGM was their fourth shareholder meeting since the December 2014 announcement by the founding Burkhard-Schenker family of their intention to sell their ownership stake (16% of share capital and 52% of voting rights) to Compagnie de Saint-Gobain, which would become the new controlling shareholder. Sika's board and minority investors are opposed to the deal as in their view it lacks strategic rationale and excludes all other shareholders from receiving a control premium.

The articles of association provide for a voting rights ceiling of 5%, from which the Burkhard-Schenker family had been exempted by the board. The board however has argued since the April 2015 AGM that as the shares are subject to a sale agreement this position is now effectively under the control of St. Gobain and therefore the exemption no longer applies.

The board decided to cap the voting rights of the Burkhard-Schenker family on all resolutions relating to board elections at the 2015 AGM, at a July 2015 EGM, and at the 2016 AGM. For the 2017 AGM the company disclosed in a press statement³ that they had capped the voting rights for the following agenda items:

- Re-election of Monika Ribar, Paul Hälg, Frits van Dijk, Daniel Sauter, Ulrich Suter and Christoph Tobler.
- Shareholder proposal from the Burkhard-Schenker family regarding the election of Jacques Bischoff to the Board of Directors.
- Election of the Chairman of the Board of Directors.
- Re-election to the Nomination and Compensation Committee, with the exception of Urs Burkard.

The voting results published by the company show that Monika Ribar, Paul Hälg, Frits van Dijk, Daniel Sauter, Ulrich Suter and Christoph Tobler were not granted the discharge in their function as board members. Furthermore shareholders rejected the compensation report for 2016 and also rejected the proposal for the board's compensation for the two preceding terms of office and its future compensation until the next AGM.

Following the 2017 AGM, Sika received notification⁴ from the Burkhard-Schenker family in June that they would challenge certain decisions of the Annual General Meeting in court. Previous attempts by the family to obtain a court order overturning the board decision to cap their voting rights were unsuccessful⁵. With its action, the Burkhard-Schenker family essentially challenges the re-election to the board of directors of Monika Ribar as well as Paul Hälg, Daniel Sauter, Ulrich Suter and Christoph Tobler as well as the non-election of Jacques Bischoff as a board member (which they had put forward as a shareholder proposal).

³ http://www.sika.com/content/dam/Corporate/SikaGroup/MediaDocuments/MediaReleases2017/Sika%20Media%20Release%20AGM%20Decisions_EN_11April17.pdf

⁴ <http://www.sika.com/en/group/Media/Mediareleases/2017/anfechtung-gv-beschluesse-2017-durch-swh.html>

⁵ <http://www.sika.com/en/group/Media/Mediareleases/2017/appeal-by-schenker-winkler-holding-ag-received.html>

SMI MID

Among SMI MID companies, two companies had management proposals rejected. The two companies were: Gam Holding Ltd and Georg Fischer AG.

GAM Holding Ltd

GAM Holding received shareholder proposals from RBR Capital in February, two months before its annual general meeting which was held on 27 April 2017. RBR proposed the election of Kasia Robinski, William Raynar and Rudolf Bohli as members of the Board of Directors and the election of Kasia Robinski as Chairman of the Board of Directors. Furthermore, RBR proposed the election of Kasia Robinski and William Raynar as members of the Compensation Committee.

After the announcement that shareholder proposals had been received from RBR, GAM announced that its chairman Johannes de Gier would retire at the upcoming AGM. David Jacob was announced as new board member candidate with the incumbent Hugh Scott-Barrett proposed to become chairman. While the majority of shareholders rejected the RBR shareholder proposals, shareholders did not approve the compensation report for 2016. Shareholders also did not approve the proposed maximum variable compensation of the Group Management Board for 2017.

Georg Fischer AG

At the Georg Fischer AGM on 19 April 2017 the compensation report for 2016 received only 44.8% support. According to the company's press release⁶ this was "mainly based on the recommendations of two Anglo-Saxon proxy advisors who had criticized the remuneration model before the shareholder's meeting, the 2016 Compensation Report did not find a majority of the consultative vote. Georg Fisher will once again discuss the topic with larger shareholders and the proxy advisors over the following months in order to elaborate a remuneration model which is widely accepted."

⁶ <http://www.gfps.com/content/gf/com/en/investoren/generalversammlung.html>

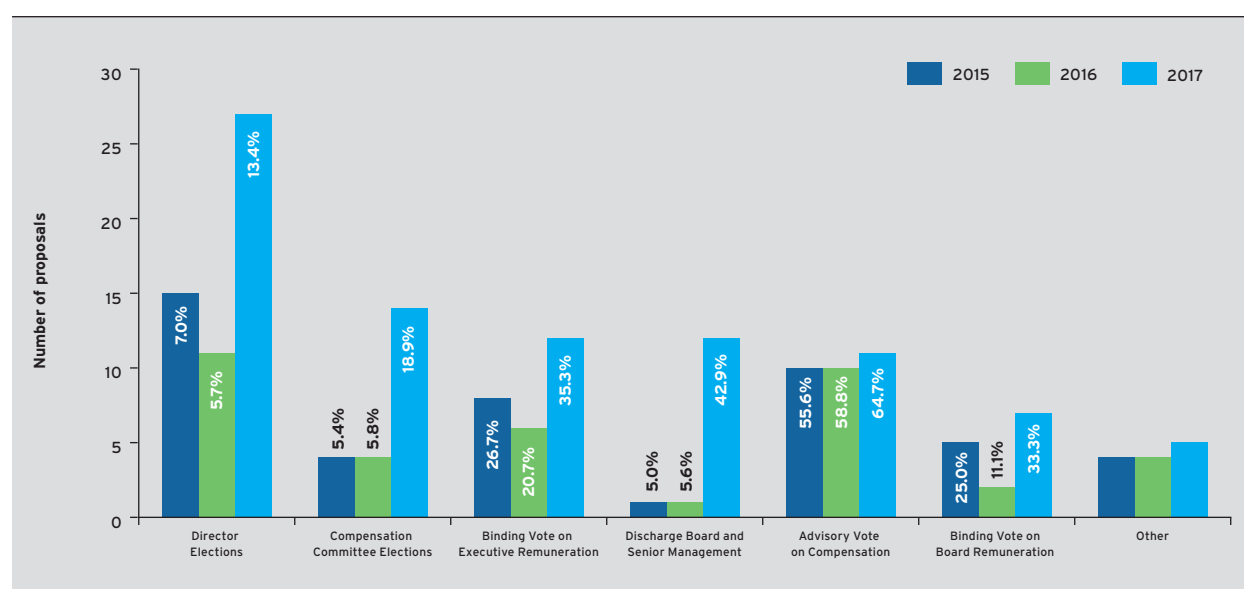
1.3 Contested resolutions

The number of SMI companies who saw at least one resolution receive more than ten percent shareholder opposition, increased from 12 in 2016 to 15 in 2017. The total number of resolutions that received over ten percent opposition amounted 88 in 2017, compared to 38 in 2016.

It should be noted that all vote results in this section exclude Compagnie Financière Richemont SA⁷ which at the time this report was finalised had only confirmed that all their resolutions were approved by shareholders. The numbers for 2016 exclude the results of Swatch Group SA⁸ who did not disclose detailed voting information for their last year's AGM.

In our SMI sample, the most commonly contested resolutions were director elections. The second most commonly contested resolutions related to the binding vote on executive remuneration, followed by compensation committee elections, and the advisory vote on the remuneration report.

Graph 3: Number of resolutions which received more than 10% against votes in the SMI (by resolution type). The percentages represent the ratio between the number of proposals that received more than 10% against and the total number of proposals in each category.



1.3.1 Director elections

As required under the 'Minder' Ordinance⁹, Swiss companies introduced annual director elections in 2014, which led to an increased number of AGM resolutions. Previously, members of the Supervisory Board were usually elected for multi-year terms.

As in prior years, it appears that the main reasons for investors to vote against the election of directors were related to the overall independence of the board and the number of external positions held by individual board members.

The companies with the highest level of opposition on director elections among our sample were:

- SGS SA (Ian Gallienne - 67.6%; August von Finck - 67.8%; Sergio Marchionne - 68.2%; Gerard Lamarche - 68.4%; and Paul Desmarais - 68.6% votes in favour)
- Sika AG (Urs Burkard - 77.0%; Juergen Tinggren - 78.0%; Willi Leimer - 78.0% votes in favour)
- Swatch Group (Daniela Aeschlimann - 83.4%; Claude Nicollier - 84.7%; Georges Hayek - 85% votes in favour)

⁷ https://www.richemont.com/files/press/company_announcement_14092016_k4jd3te72s9.pdf

⁸ http://www.swatchgroup.com/en/content/download/5446/214583/file/swatchgroup_news_board_of_directors_E_2016_04_06.pdf

⁹ Verordnung gegen übermässige Vergütungen bei börsennotierten Aktiengesellschaften (Ordinance against excessive compensation with respect to listed corporations): <http://www.admin.ch/opc/de/classified-compilation/20132519/index.html>.

1.3.2 Discharge board and senior management

Issuers in Switzerland are required to place a discharge vote for their board and senior management on the AGM agenda. The vote is non-binding.

A few investors routinely vote against the discharge, as granting discharge to the board and senior management would prevent them from taking legal action against the company in the future for facts which were publicly known at the time of the vote. However this would not affect any future rights on unknown facts.

A high level of opposition on the discharge vote is often a result of ongoing investigations against a company, concerns about its performance or discontent with a single or multiple members of the board or senior management. The resolution may be presented by the company in a single vote or as individual discharge resolutions by board/senior management member.

The three companies with the highest level of opposition on the discharge among our sample were:

- ABB Ltd. (Discharge of the board and senior management in one bundled resolution - 57.3% votes in favour)
- Sika AG (Discharge of Willi Leimer - 75.45%; Discharge of Juergen Tinggren - 75.31%; Discharge of Urs Burkard - 75.06% votes in favour)
- Credit Suisse (Discharge of the board and senior management in one bundled resolution - 88.5% votes in favour)

1.3.3 Advisory vote on the remuneration report

Even though a binding vote on remuneration was introduced under the 'Minder' Ordinance, the majority of Swiss issuers continue to voluntarily offer shareholders an advisory vote on the remuneration report. This practice is aligned with the Swiss Code of Best Practice for Corporate Governance¹⁰.

This practice allows shareholders to express their satisfaction or dissatisfaction retrospectively over the payments made to executives and non-executives as well as the disclosure provided in the remuneration report of the past financial year.

Of the 20 SMI companies, seventeen companies submitted a vote on their remuneration report during the 2017 proxy season. The exceptions were Compagnie Financière Richemont, Roche and Swatch, which did not put their remuneration report up for an advisory shareholder vote in connection with their 2017 AGM.

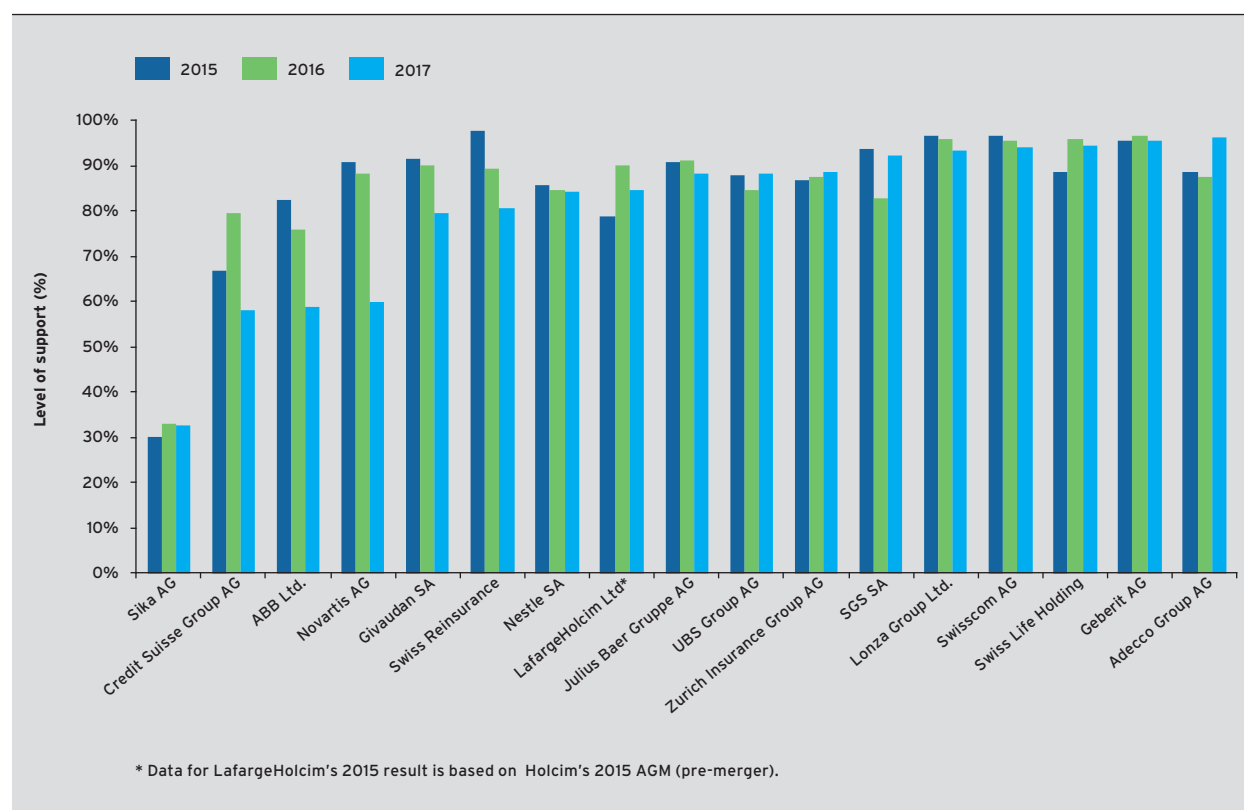
Out of the seventeen SMI companies who held an advisory shareholder vote on the remuneration report, eleven received opposition in excess of ten percent.

The companies with the lowest level of support on the remuneration report were:

- Sika AG (32.5% of votes in favour)
- Credit Suisse (58.0% of votes in favour)
- ABB Ltd. (58.8% of votes in favour)
- Novartis SA (59.8% of votes in favour)

¹⁰ http://www.economiesuisse.ch/sites/default/files/downloads/economiesuisse_swisscode_e_web.pdf

Graph 4: Level of support for the advisory vote on the remuneration report over three years at the SMI companies surveyed.



1.3.4 Binding votes on compensation

Under the provisions of the 'Minder' Ordinance, the general meeting of shareholders has to vote on an annual basis on the compensation of the board of directors, of the executive management, and of the advisory board.

The articles of association must define the details of the vote and the steps to take in case the proposals are rejected. The votes have a binding effect and advisory votes do not fulfil the requirements of the ordinance, which came into effect starting with the 2015 proxy season. The ordinance allows companies to implement either prospective or retrospective binding votes on the quantum of fixed and variable remuneration, while votes on the remuneration report or policy are not required.

In order to comply with the ordinance, most SMI companies opted for a forward looking binding vote on an overall budget covering both fixed and variable executive remuneration, and a forward looking binding vote on a budget for non-executive fees. Many companies consider this to be the least risky option as a failed binding retrospective vote may involve a legal obligation to claw back remuneration to an extent that is not practicable.

However, as noted in paragraph 1.3.3 above, in order to complement the binding votes required by the ordinance, 17 out of 20 SMI companies have continued to propose a voluntary advisory vote on their remuneration report. This allows shareholders to express a backward-looking view on the way companies have used the budget and the level of disclosure provided on their remuneration decisions.

The companies with the lowest level of support on the binding vote on non-executive board compensation in the SMI were:

- Sika AG (34.1% votes in favour)
- Credit Suisse Group AG (73.1% votes in favour)
- Swiss Reinsurance (88.5% votes in favour)
- UBS Group (89.1% votes in favour)
- Nestle SA (89.9% votes in favour)

The companies with the lowest level of support on the binding vote on executive compensation in the SMI were:

- Credit Suisse (59.6% votes in favour)
- ABB Ltd. (62.0% votes in favour)
- Swatch Group (75.8% votes in favour)
- SGS SA (80.1% votes in favour)
- Nestle SA (87.1% votes in favour)

1.3.5 Compensation committee elections

Until 2014, shareholders were only able to vote on the election of directors, but not on their membership of a board committee. Since the implementation of the 'Minder' Ordinance, shareholders have the opportunity to vote on the election of directors to serve on the compensation committee.

As this represents a separate voting item since 2014, investors are able to support the election of a candidate to the Board, but oppose their election to the compensation committee.

The companies with the highest level of opposition on compensation committee member elections in the SMI were:

- SGS SA (August von Finck - 67.1%; and Ian Gallienne - 69.1% votes in favour)
- ABB Ltd. (Urs Burkard - 74.3%; Daniel Sauter - 79.1% votes in favour)
- Swatch Group (Georges Hayek - 75.5%; Nayla Hayek - 76.3% votes in favour)

2. PROXY ADVISORS

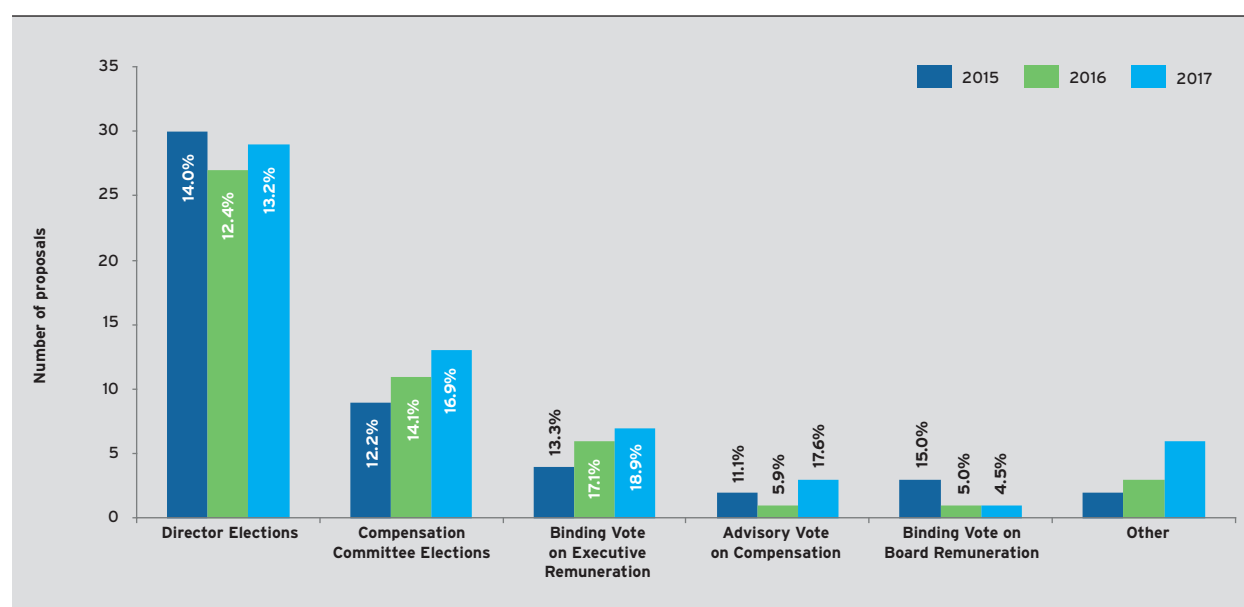
Many institutional investors rely on proxy advisory firms, such as ISS, Glass Lewis and Ethos for meeting agenda analysis and vote recommendations to inform their voting decisions. A negative recommendation from a proxy advisor can have an adverse impact on the vote outcome of a given resolution.

2.1 ISS

Institutional Shareholder Services¹¹ (ISS) is a leading provider of corporate governance solutions for asset owners, hedge funds, and asset service providers.

During the 2017 reporting period, 10 companies out of the SMI received at least one against recommendation from ISS, compared to 6 in 2016. The total number of resolutions where ISS recommended a vote against amounted to 59 in 2017, compared to 49 in 2016.

Graph 5: Overview of negative recommendations by ISS at SMI AGMs over the past three years. The percentages represent the ratio between the number of proposals that received a negative ISS recommendation and the total number of proposals in each category.



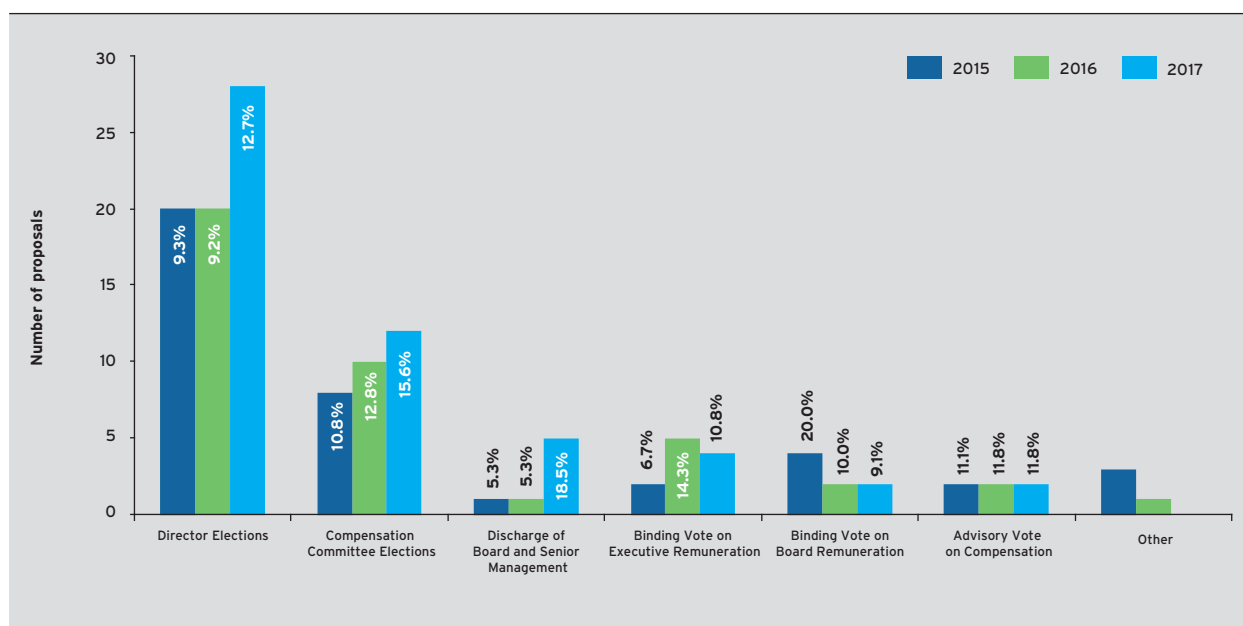
¹¹ <http://www.issgovernance.com/about/about-iss/>

2.2 Glass Lewis

Glass Lewis¹² is a leading provider of governance services that support engagement among institutional investors and corporations through its research, proxy vote management and technology platforms.

During the 2017 reporting period, 11 companies out of the SMI received at least one against recommendation from Glass Lewis, the same number as in 2016. The total number of resolutions where Glass Lewis recommended its clients to vote against amounts to 53, compared to 41 in 2016.

Graph 6: Overview of the number of negative recommendations by Glass Lewis at SMI AGMs over the past three years. The percentages represent the ratio between the number of proposals that received a negative Glass Lewis recommendation and the total number of proposals in each category.



¹² <http://www.glasslewis.com/about-glass-lewis/>

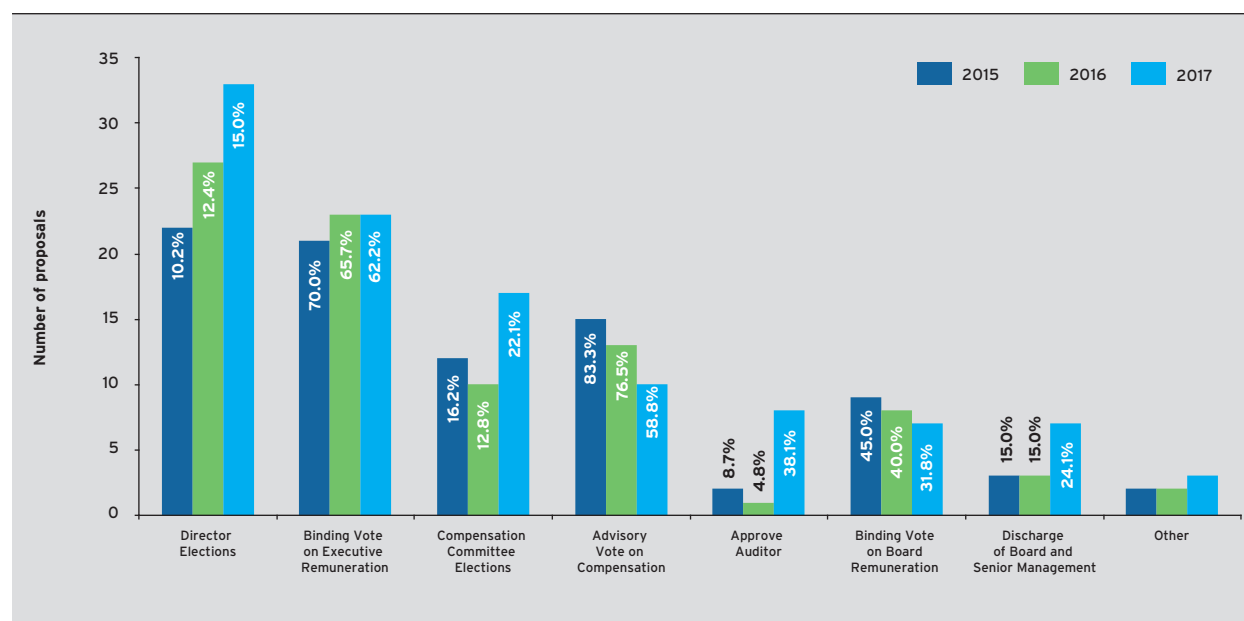
2.3 Ethos

Ethos¹³, the Swiss Foundation for Sustainable Development was founded in 1997. It is composed of 222 Swiss pension funds and other tax-exempt institutions and aims at promoting socially responsible investment (SRI). They are also members of the Expert Corporate Governance Service¹⁴ (ECGS), a partnership of independent local proxy advisors.

Ethos offers a wide range of SRI-funds, provides analyses of general meeting agendas including voting recommendations, a shareholder engagement programme as well as sustainability and corporate governance ratings and analyses of listed companies. All activities of Ethos Services are based on the concept of sustainable development and the Charter of the Ethos Foundation.

During the 2017 reporting period, 18 companies out of the SMI received at least one against recommendation from Ethos, compared to 17 in 2016. The total number of resolutions where Ethos recommended voting against amounts to 108, compared to 87 in 2016.

Graph 7: Overview of the number of negative recommendations by Ethos at SMI AGMs over the past three years. The percentages represent the ratio between the number of proposals that received a negative Ethos recommendation and the total number of proposals in each category.



¹³ <http://www.ethosfund.ch/e/ethos-foundation/ethos-foundation.asp>

¹⁴ <http://www.ecgs.org/partners>

3. CORPORATE GOVERNANCE DEVELOPMENTS

3.1 SIX consultation on proxy advisor services to issuers

SIX Swiss Exchange, the Swiss stock exchange, published a consultation¹⁵ that relates to proxy advisors providing services to issuers. “The Issuers Committee of SIX Swiss Exchange therefore decided to include a proposal for ‘transparency rules’ in the Directive Corporate Governance (DCG) from January 1, 2016. [...] If a proxy advisor has rendered the relevant advisory services during the reporting year, such circumstances (incl. fees) must be disclosed in the statements on corporate governance in the annual report. This regulation should lead to an increase of transparency regarding the independence of proxy advisors for investors.” The consultation closed on 31 July 2017.

In a statement Ethos responded¹⁶ as follows: “Ethos supports this new provision which aims at reigning in conflicts of interest of certain proxy advisors. [...] Nonetheless, Ethos considers that it is insufficient to publish only the name of the proxy advisors and the amount of their fees as proposed by SIX Swiss Exchange in this consultation. [...] Ethos goes a step further by taking the position that certain types of mandates are incompatible with the function of proxy advisor and should simply be prohibited.”

ISS stated as follows in their response¹⁷ to the SIX consultation: “For the reasons outlined below, we believe the proposed rule is both unnecessary and harmful as it could undermine the manner in which ISS currently works to mitigate the potential conflict between the core business of ISS in servicing its institutional investor clients and the work that ICS does with corporations. [...] We are concerned that SIX’s proposed new disclosure requirement will put information about ICS’ clients in the public domain, thereby undermining our goal of preventing members of the Research team from knowing the identity of the ICS clients while providing no corresponding benefit to the investors who use ISS’ research and who already have access to this information.”

3.2 Modernisation of Swiss Company Law

The Federal Council (the Swiss government) adopted a dispatch to Parliament on the modernisation of Swiss company law in November 2016¹⁸: “The Federal Council wants to modernise Swiss company law. It adopted the related dispatch for Parliament at its meeting on 23 November 2016. [...] The new dispatch will transfer the provisions of the Ordinance against Excessive Remuneration in Listed Companies Limited by Shares (ERCO) into the relevant federal statutes. [...] Specifically, it outlaws joining bonuses which do not offset any demonstrable financial disadvantage, as well as compensation for non-compete clauses that are not commercially justified. It also limits the level of such payments. Where shareholders vote in advance on variable remuneration for top managers, they must also be presented with the annual compensation report for a subsequent consultative vote. Finally, more effective options for claiming the reimbursement of unlawful payments will also be introduced. [...] The gender equality obligation laid down in the Federal Constitution will be fulfilled by the introduction of gender guidelines for the boards of directors and executive boards of major listed companies. Women should account for at least 30 percent of the board of directors and at least 20 percent of the executive board. If these targets are not met, the joint-stock company will be required to state the reasons, and the action that is being taken to improve the situation, in its remuneration report.”

¹⁵ <https://www.six-exchange-regulation.com/en/home/publications/explorer/consultations.html#c=/content/ser/global/en/taxonomy/media-type/publication/consultation/current/consultation-procedure-partial-revision-dcg-proxy-advisor>

¹⁶ <https://www.ethosfund.ch/en/news/yes-to-more-transparency-on-consultancy-mandates-of-proxy-advisors>

¹⁷ <https://www.issgovernance.com/file/duediligence/SIX-Exchange-Letter.pdf>

¹⁸ <https://www.admin.ch/gov/en/start/documentation/media-releases.msg-id-64622.html>

3.3 Ethos Swiss Corporate Governance Index

Ethos launched¹⁹ the first Swiss stock exchange index dedicated to corporate governance at the beginning of 2017. "In the follow-up to its 20th anniversary, the Ethos Foundation launches a new stock exchange index dedicated to corporate governance at Swiss companies. In collaboration with the Swiss Stock Exchange (SIX Swiss Exchange), Ethos publishes the 'Ethos Swiss Corporate Governance Index' (ESCGI) which takes into account the main corporate governance best practice criteria in order to define the weight of the different constituents. This is the first index of this type on the Swiss stock market. The index allows investors to reduce the weight of companies that entail a corporate governance risk."

3.4 Updated Corporate Governance Guidelines for Banks

Finma, the Swiss Financial Market Supervisory Authority, redefined corporate governance guidelines for banks in November 2016²⁰: "Finma is consolidating the supervisory requirements relating to corporate governance, internal control systems and risk management for banks. This consolidation takes the form of a circular incorporating the most recent findings from the financial crisis and the revised international standards. [...] The new 'Corporate governance - banks' circular underlines the importance of modern corporate governance and appropriate and effective risk management. The circular sets minimum requirements not only for the composition of boards and the qualifications of their members but also for the organisation of internal control systems at banks. [...] The 'Remuneration schemes' circular must now only be applied in full by the biggest banks and insurance companies and explicitly prohibits hedging transactions. It remains, however, a key guideline for all banks and insurance companies."

¹⁹ <https://www.ethosfund.ch/en/news/ethos-launches-the-first-swiss-stock-exchange-index-dedicated-to-corporate-governance>

²⁰ <https://www.finma.ch/en/news/2016/11/20161101-mm-rs-corporate-governance-bei-banken/>



Italy





Italy Highlights

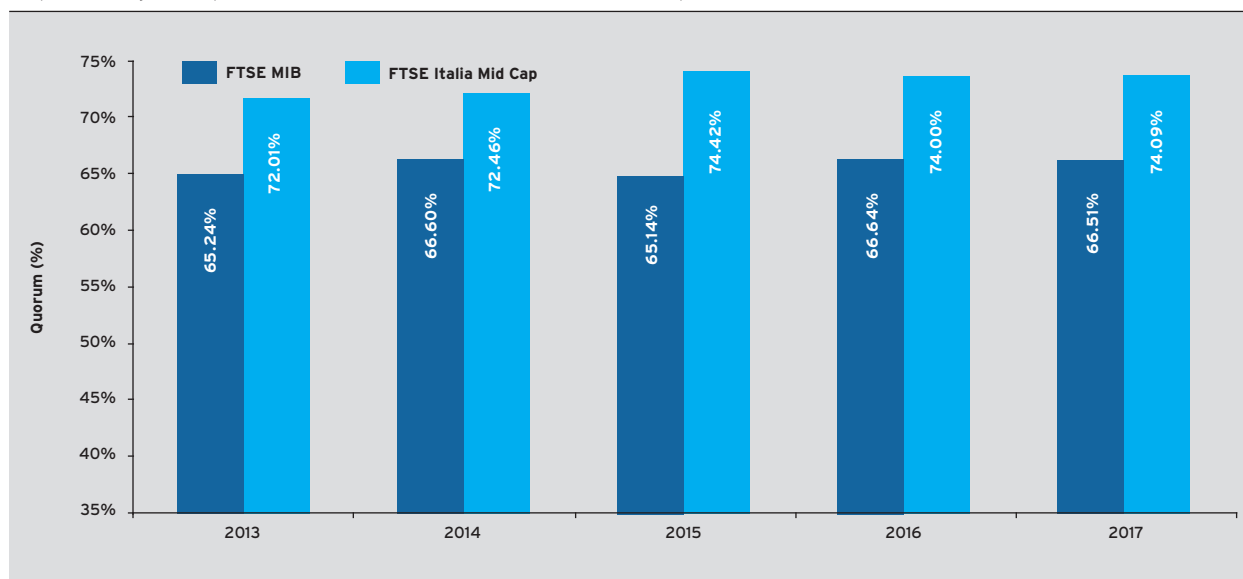
- The average quorum for FTSE MIB companies during the 2017 AGM season (excluding companies whose registered office is outside of Italy) has been 66.51%, registering a slight decrease compared to the 2016 quorum (66.64%).
- Among the FTSE Italia Mid Cap companies two issuers had a management-proposed resolutions rejected by shareholders: Ansaldo STS and Gequity.
- In our FTSE MIB sample, the most commonly contested resolutions were remuneration report votes followed by share issuance authorities related to long-term incentive plans.
- For the 2017 AGM season 12 FTSE MIB issuers re-elected their Board of Directors.
- During the year under review 21 FTSE MIB companies received at least one against or abstain recommendation from ISS (for a total of 32 resolutions), and 16 FTSE MIB companies received at least one against or abstain recommendation from Glass Lewis (for a total of 30 resolutions).

1. VOTING IN ITALY

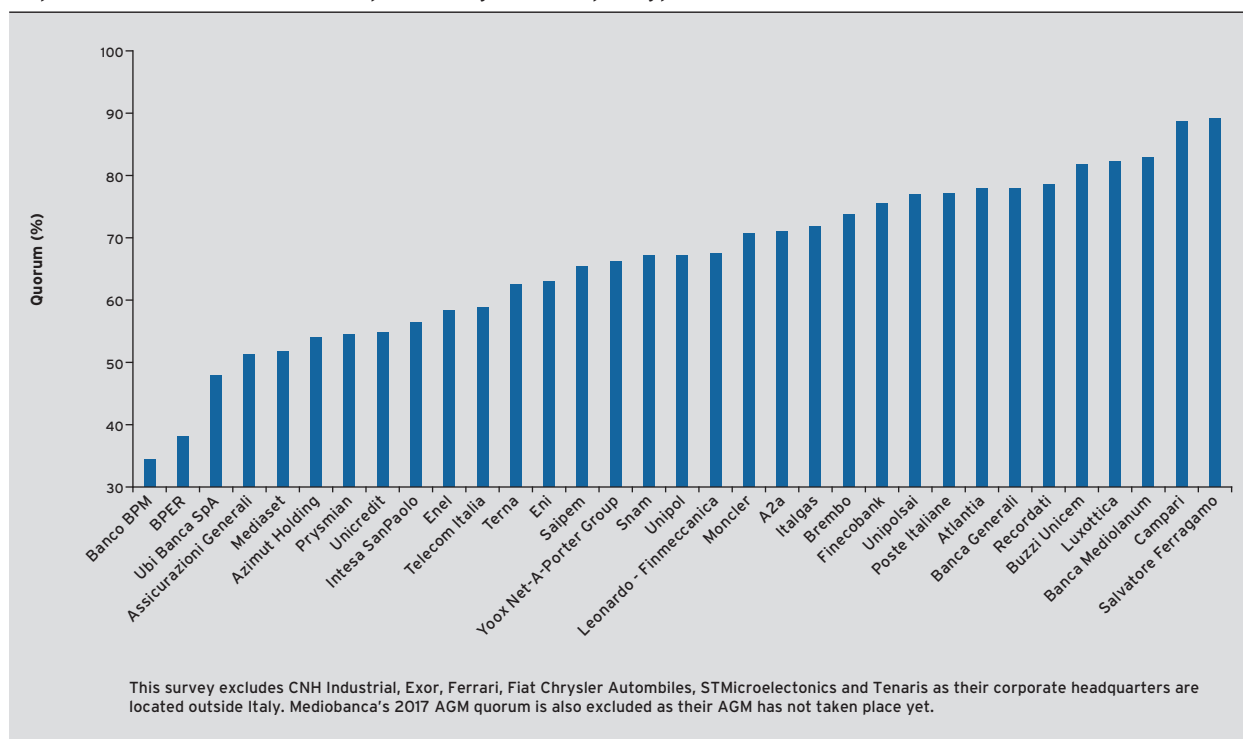
1.1 Quorum overview

Georgeson has reviewed the quorum levels of FTSE MIB and FTSE Italia Mid Cap companies over the past five years. This year's review includes 33 companies that were a part of the FTSE MIB index as of 31 May 2017, and which held their AGM between 1 August 2016 and 31 July 2017. In particular, the analysis excluded companies with their headquarters abroad or which do not qualify as joint stock companies (in relation to which specific voting rights provisions apply).

Graph 1: Average AGM quorum levels in the FTSE MIB and FTSE Italia Mid Cap between 2013 and 2017.



Graph 2: Quorum levels at FTSE MIB companies during the 2017 reporting period.



1.2 Rejected resolutions

FTSE MIB

Within our sample of FTSE MIB companies there have been no management-proposed resolutions rejected by shareholders.

FTSE Italia Mid Cap

Within our sample of FTSE Italia Mid Cap companies, two companies had management-proposed resolutions rejected by shareholders: Ansaldo STS S.p.A. and Gequity S.p.A..

Ansaldo STS

Ansaldo STS¹ is a leading company operating in the sector of high technology for railway and urban transport. The company is subject to the direction and coordination of Hitachi Corporation, which holds the majority of the share capital of Ansaldo (50.77%).

At its 2017 AGM² there were two proposals regarding ordinary distribution of dividends (one from the management and an alternative one from a shareholder). In addition there was a further shareholder proposal regarding an extraordinary dividend distribution. The shareholder proposals would have resulted in a distribution of dividends higher than the proposal from management, specifically through a distribution of retained earnings³. All three above-mentioned proposals failed to gain a majority of votes cast, and were therefore rejected (resulting in no dividend being approved).

Gequity

Gequity⁴ is an Italian issuer operating in the private equity sector, through the acquisition of stakes in listed or private small/mid cap companies. Gequity is controlled by Sintesi S.p.A. (55.14%)⁵.

At its 2017 AGM⁶ the management proposals to:

- Approve the financial statements; and,
- Approve the remuneration report (an advisory vote),
- failed to achieve support from the main shareholder attending the meeting (holding 32,036,187 shares out of the 32,036,203 present at the meeting), who abstained.

¹ <http://www.ansaldo-sts.com/en/about-us-0>

² http://www.ansaldo-sts.com/sites/ansaldosts.message-asp.com/files/imce/2017_05_12_rendiconto_ita.pdf

³ http://www.ansaldo-sts.com/sites/ansaldosts.message-asp.com/files/imce/relazione_illustrativa_litespeed_ex_art_126-bis_tuf_eng.pdf

⁴ <http://www.investmentiesviluppo.it/index.php/ct-menu-item-12/ct-menu-item-22>

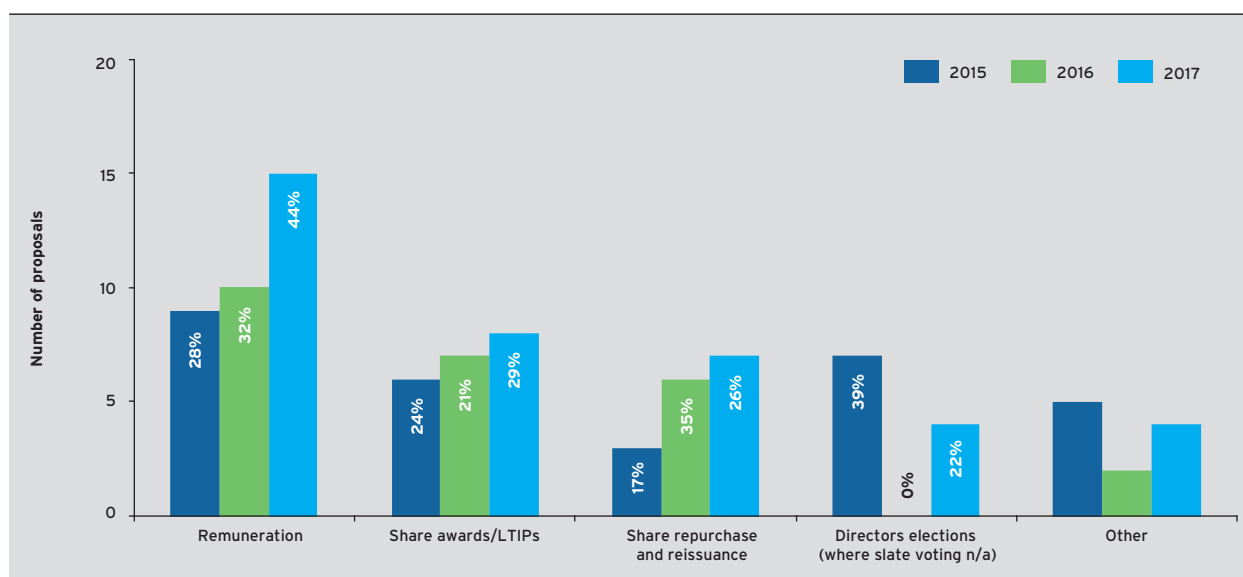
⁵ Sintesi is currently subject to a composition with creditor, under Italian bankruptcy law.

⁶ <http://www.investmentiesviluppo.it/attachments/article/883/Verbale%20Assemblea%20del%2024-05-2017%20pubblicato%20con%20allegati.pdf>

1.3 Contested resolutions

Among our sample of 33 FTSE MIB companies that held their AGM between 1 August 2016 and 31 July 2017, 22 companies saw at least one management-proposed resolution receive more than 10% shareholder opposition (compared to 16 in the preceding year). The total number of resolutions that received over 10% opposition amounted to 38, compared to 25 resolutions in 2016.

Graph 3: Number of resolutions which received more than 10% against votes in the FTSE MIB (by resolution type). The percentages represent the ratio between the number of proposals that received more than 10% against and the total number of proposals in each category.



In our FTSE MIB sample, the most commonly contested resolutions were remuneration report votes. The second most commonly contested resolutions were share repurchase programmes, including those related to long-term incentive plans. The third most commonly contested resolutions were share awards plans (incentive plans providing for the granting of equity instruments and/or monetary incentives based on stock value). Finally, the fourth most commonly contested resolutions were elections of individual directors and Chairmen (outside the slate voting system, see section 1.3.5 below), which in Italy only take place to fill a casual vacancy, or, in the case of a general election, to appoint the Chairman of the Board among the candidates elected through the slate system.

1.3.1 Remuneration report

As mentioned above, resolutions pertaining to remuneration matters are those which generated the highest number of contested resolutions. Italian law⁷ provides that issuers are obliged to publish, at least 21 days prior to the relevant annual general meeting, a remuneration report.

Such a report is comprised of two sections and their contents have been defined by the Italian stock market regulator (CONSOB) with an ad hoc regulation adopted on 23 December 2011⁸. The first section illustrates the general principles guiding the way executives will be compensated in the following year and the applicable procedures; the second section provides for a detailed disclosure on the compensation paid to each board member, the managing director and the top management overall.

The first section must be submitted to a mandatory non-binding vote of shareholders. With regard to financial institutions, a regulation⁹ issued by the Bank of Italy provides that the vote on the remuneration policy is mandatory and binding¹⁰. Similar provisions are applicable to insurance companies that are subject to IVASS¹¹ regulation no. 39 of 9 June 2011, in relation to which, the remuneration policy vote is mandatory and binding.

The companies with the lowest level of support on the Remuneration Report among our sample were:

- Telecom Italia (56.05% in favour)
- Snam (61.57% in favour)
- Yoox NàP (65.73% in favour)
- Recordati (68.23% in favour)

The available proxy advisor reports recommended a vote against the remuneration reports of all the companies mentioned above. However it is worth noting that the vote results include votes cast by the strategic shareholders at each company. Focusing on the vote of the free float, it appears that Snam and Telecom Italia obtained higher support from non-core shareholders (30% and 25% respectively) compared to Yoox NàP and Recordati (24% and 6% respectively).

⁷ Legislative Decree n. 259 of 30 December 2010, implementing the EC Recommendations 2004/193 EC and 2009/385 EC, amended the Legislative Decree n. 58 of 24 February 1998 (the Italian "Consolidated Financial Law") by inserting article 123 ter.

⁸ http://www.consob.it/main/documenti/Regolamentazione/normativa/regemit.htm#Art._84-quater

⁹ https://www.bancaditalia.it/compiti/vigilanza/normativa/archivio-norme/circolari/c285/Circ_285_16_Aggto_testo_integrale_segnalibri.pdf

¹⁰ In particular Part I, Title IV, Chapter 2, Section II, paragraph 1 of Regulation of Bank of Italy n. 285 of 17 December 2013, provides that the Shareholders' Meeting approves, among others, the remuneration policies of the controlling and supervisory bodies, the applicable share awards plans and the relevant severance payments.

¹¹ Institution for the Supervision of Insurance

1.3.2 Adoption of share awards plans

According to Italian law¹² the adoption of remuneration plans that relate to financial instruments (such as stock options, share awards and/or phantom shares) and aim to remunerate, among others, members of a company's controlling or supervisory bodies must be approved by shareholders.

The companies with the lowest level of support on the approval of equity related plans among our sample were:

- Atlantia (67.29% in favour)
- Eni (78.28% in favour)
- Snam (80.58% in favour)
- Unipol (83.95% in favour)

ISS recommended against all four resolutions mentioned above, while Glass Lewis issued a positive recommendation for Eni, Snam and Unipol and against Atlantia. Frontis Governance recommended against at Snam and Atlantia. Focusing on their free float, Snam obtained the largest support from minorities (64.78%), followed by Eni (58.73%), Unipol (42.97%), and Atlantia (40%).

1.3.3 Authorities to repurchase and reissue shares

According to article 2357 of the Italian Civil Code, share repurchase programmes and the use of repurchased shares are subject to the approval of shareholders. The law requires issuers to disclose limitations in terms of scope, amount and duration of the authorisation.

The companies with the lowest level of support on the approval of share repurchase programmes among our sample were:

- Azimut Holding (73.52% in favour)
- Moncler (77.58% in favour)
- FinecoBank (78.86% in favour)
- Unipol (84.83%)

ISS recommended against all of the proposals mentioned above, while Glass Lewis recommended in favour of all.

Focusing on their free float, Azimut Holding obtained the largest support from minorities (63.98%), followed by FinecoBank (59.74%), Moncler (57.56%), and Unipol (46.09%).

1.3.4 Director elections (where slate voting was not applicable)

Italian law requires the Board of Directors to be elected by a slate voting system (see section 1.3.5 below). However when casual vacancies arise (affecting less than 50% of the board elected by the shareholders' meeting) and directors are co-opted to the Board they are subject to an individual shareholder vote decided by a simple majority¹³.

With regard to election of the chairman of the Board, Italian law¹⁴ provides that they be appointed by the members of the Board, unless an individual is named by the shareholders. However, the appointment by a majority vote of shareholders is the common practice.

Among our sample, 4 resolutions on director appointments received less than 90% of support. Such resolutions were voted in the AGMs of:

- Azimut Holding, where two directors were on ballot (respectively receiving 63% and 87% in favour)
- Mediobanca (75.2% in favour)
- Banca Mediolanum (80.3% in favour)

¹² Article 114-bis of the Italian Consolidate Financial Law, introduced by Law n. 262 of 28 December 2005

¹³ Article 2386 of the Italian Civil Code

¹⁴ Article 2380 of the Italian Civil Code

1.3.5 Slate voting system

Italian law requires the application of a slate voting system for the election and renewal of a company's governing body (the Board of Directors) and supervisory body (the Board of Statutory Auditors)¹⁵.

Under this system, in the context of an issuer's renewal of the board of directors, one generally finds:
 one slate generally proposed by the controlling or reference shareholder of the company (and usually putting forward candidates for all or most of the available vacancies), and,
 one or more additional slates, generally proposed by a group of institutional shareholders or other minority shareholders (usually putting forward a smaller number of candidates, generally equal to the seats reserved to minority shareholders - between one seat and 50% of the board - depending on the provisions of the articles of association).

Under normal circumstances the slate proposed by the controlling or reference shareholders gains the majority of votes and qualifies as the Majority Slate, while the most voted slate among the remaining slates (i.e. excluding the Majority Slate) qualifies as the Minority Slate. The Minority Slate may appoint as many directors as the number of seats reserved to minority shareholders by the articles of association.

Italian law¹⁶ requires that the elections of the board take place through a vote on slates of candidates proposed by shareholders holding at least between 0.5% and 2.5% of the issued shares (the threshold depends on the total nominal value of the company's share capital). The slates must comply with provisions regarding gender balance (at least one third of the appointed directors must belong to the gender less represented) and independence (at least one director has to be independent, or two for boards larger than seven members). Additionally, at least one director (or a higher number, as defined by the company's articles of association) must be selected among the candidates included in the Minority Slate receiving the highest number of votes (i.e. the slate which has no links with the Majority Slate - which is assumed to receive the highest number of votes - and has gathered the second largest number of votes).

Similar provisions apply to the election of the Board of Statutory Auditors, however in this case the Chairman of the Board of Statutory Auditors must be selected among the candidates from the Minority Slate¹⁷. This is seen as a guarantee of the rights of minority shareholders.

¹⁵ This requirement relates to the Italian Traditional Model, which provides that the Board of Directors acts as the company's governing body and the Board of Statutory Auditors acts as the company's supervisory/compliance body. This model is adopted by the vast majority of Italian companies.

Italian law also provides for two alternative corporate structures:

The Dual System, which provides for a Supervisory Board (entrusted with control and strategic functions) and a Management Board (entrusted with the operational management of the company). In this case the requirements applicable under the Italian Traditional Model to the Board of Statutory Auditors (in terms of independence, minority shareholder representation and balance of gender) apply to the Supervisory Board, which, in turn, appoints the Management Board. For instance UBI Banca has adopted this system. Intesa Sanpaolo also adopted this system until February 2016.

The Monistic Model, which provides for a Board of Directors (entrusted with the operational management of the company) and a Supervisory Committee (entrusted with supervisory functions). The Supervisory Committee is composed of the independent members of the Board of Directors, and its Chairman must be selected among the Directors elected from a minority shareholder slate (article 148, paragraph 4ter of Italian Legislative Decree n.58 of 24 February 1998). The only Italian issuer that has adopted the Monistic Model is Intesa Sanpaolo, following shareholder approval (with 98.96% support of the vote) at an EGM on 26 February 2016.

¹⁶ The combined provisions of articles 2364 and 2383 of the Italian Civil Code and article 147-ter of the Italian Consolidated Financial Law.

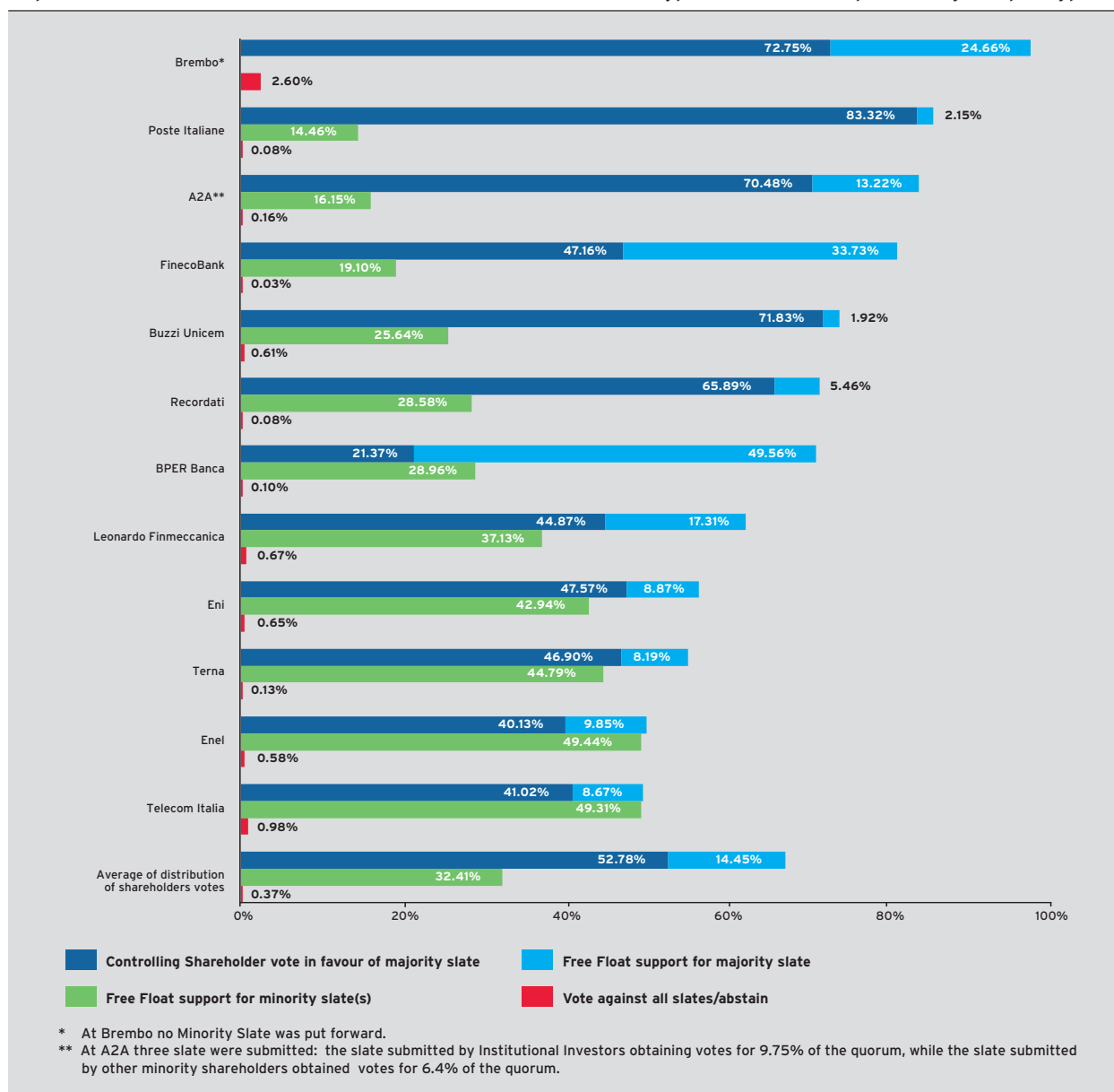
¹⁷ http://www.consob.it/mainen/documenti/english/laws/fr_decree58_1998.htm#Article_148

1.3.5.1 Election of the Board of Directors

Among the companies included in the FTSE MIB, 12 issuers held a vote on the renewal of their Board of Directors during the year under review. The graph below shows the vote result at each of these slate elections, highlighting the votes received by the Majority Slate, the votes received by the Minority Slate (with a note when more than one Minority Slate was put forward), and the votes cast against all slates or to abstain. With regard to the Majority Slate, the graph highlights the split between the votes cast by controlling shareholder(s) and the votes cast by the free float.

ISS recommended support for the Majority Slate only at Brembo (where this slate was the only one put forward), while, at the other AGMs under consideration, support for a Minority Slate was recommended. Frontis Governance recommended that investors support the Minority Slate in all its reports. Glass Lewis diverged from its previous practice of routinely supporting Minority Slates: they recommended support for the Majority Slate in 6 out of 12 cases, in line with changes in their guidelines¹⁸.

Graph 4: Distribution of shareholder votes at Board of Directors slate elections taking place at FTSE MIB companies during the reporting period.



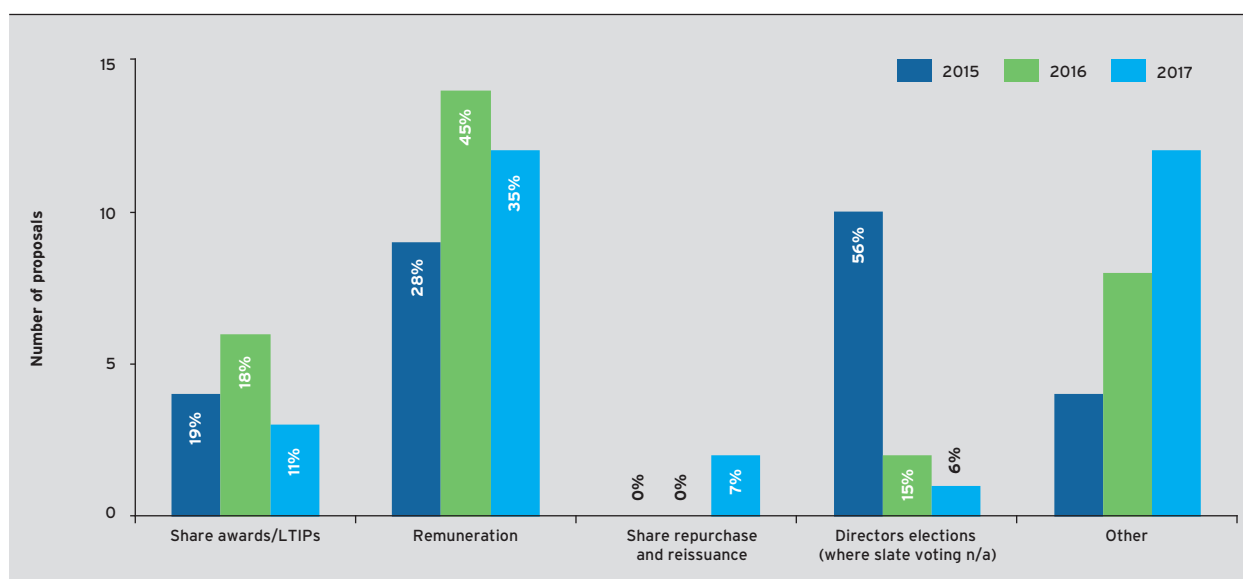
¹⁸ According to the new guidelines, Glass Lewis "will take into account the ownership structure of companies, particularly those with a dispersed share ownership, in evaluating the lists presented and the potential voting outcome at the meeting".

2.2 Glass Lewis

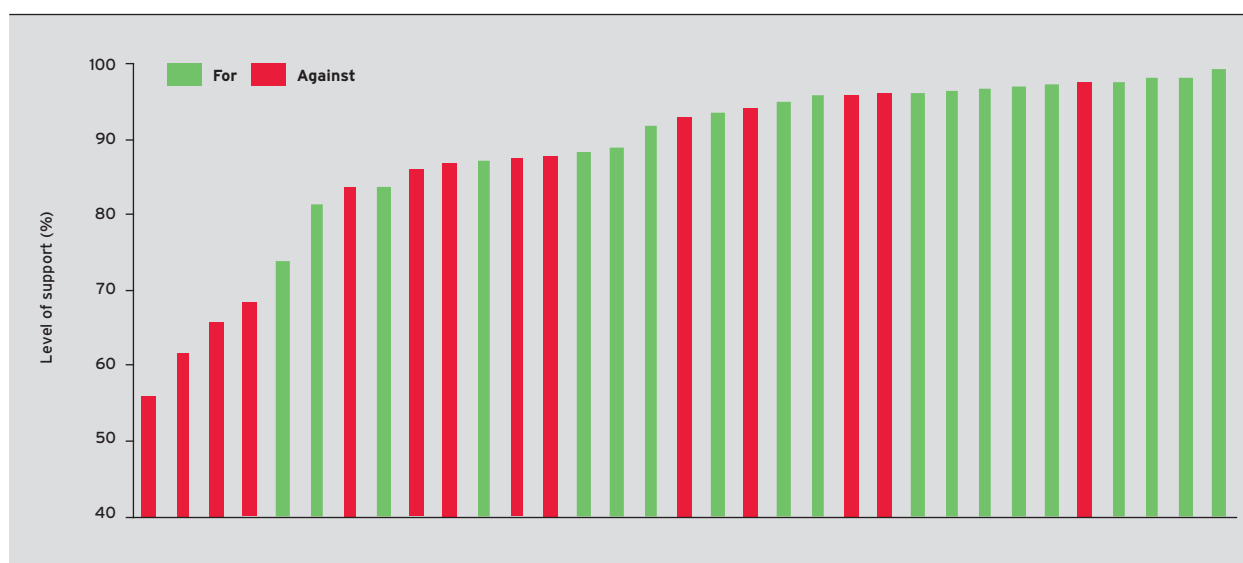
Glass Lewis²⁰ is a leading provider of governance services that support engagement among institutional investors and corporations through its research, proxy vote management and technology platforms.

Between 1 August 2016 and 31 July 2017, 16 companies out of the FTSE MIB received at least one against or abstain recommendation from Glass Lewis, for a total of 30 resolutions.

Graph 7: Overview of the number of negative recommendations by Glass Lewis at FTSE MIB AGMs over the past three years. The percentages represent the ratio between the number of proposals that received a negative Glass Lewis recommendation and the total number of proposals in each category.



Graph 8: Vote in favour of the Remuneration Report among FTSE MIB companies (ordered by level of support), and colour coded by Glass Lewis vote recommendation.



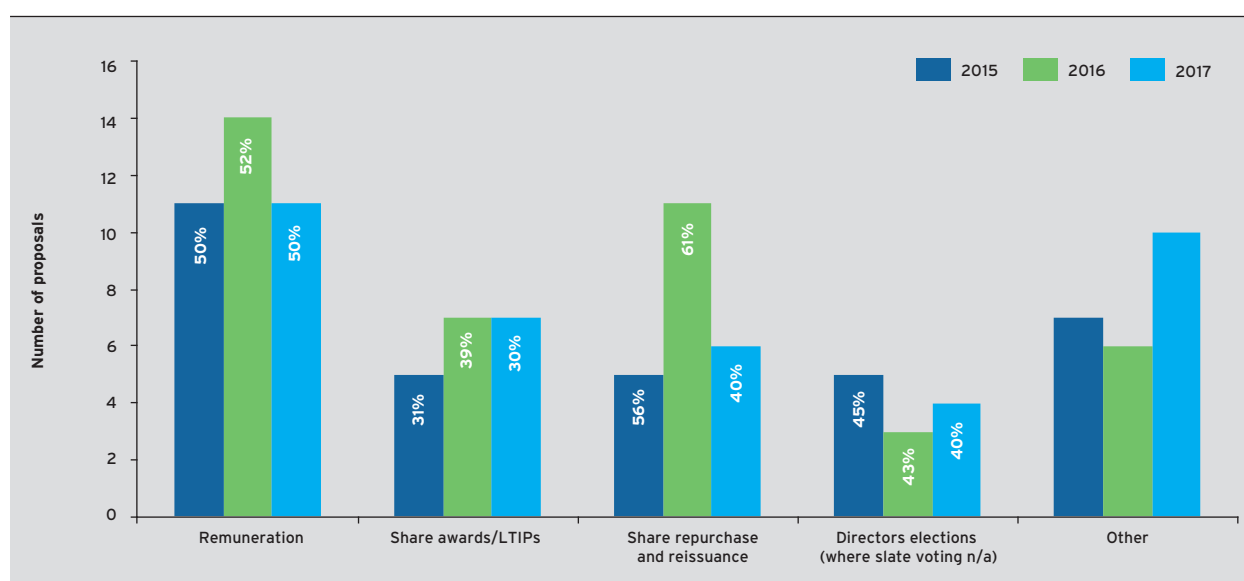
²⁰ <http://www.glasslewis.com/about-glass-lewis/>

2.3 Frontis Governance

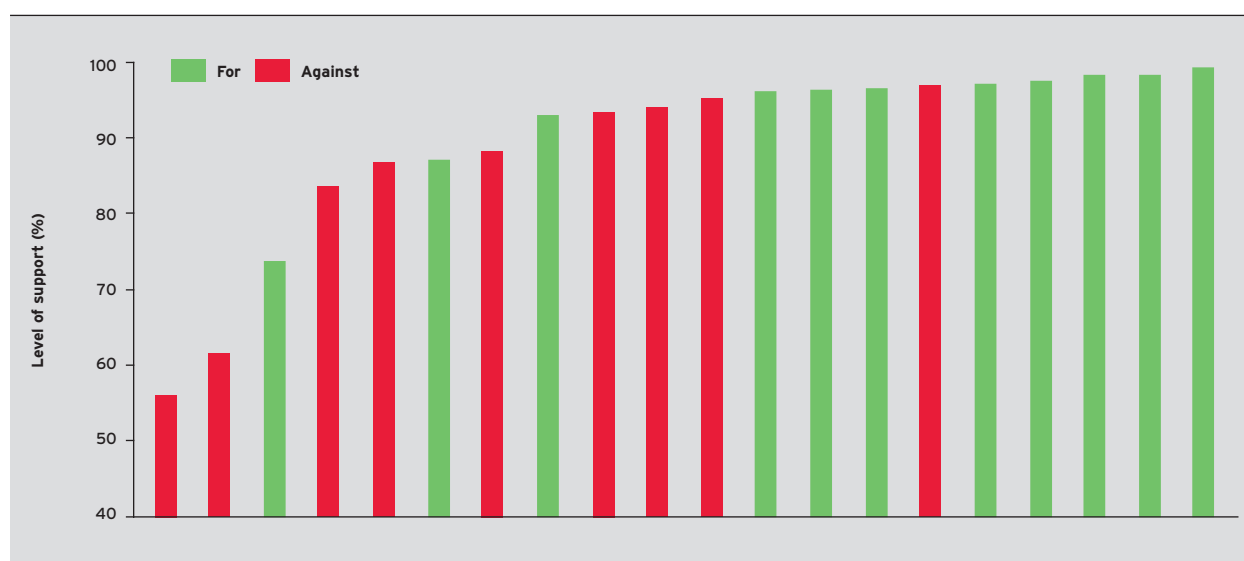
Frontis Governance²¹ is an Italian proxy advisory firm founded in September 2011. They are members of the Expert Corporate Governance Service (ECGS)²², a partnership of independent local proxy advisors.

Between 1 August 2016 and 31 July 2017, 197 companies out of the FTSE MIB received at least one against or abstain recommendation from Frontis Governance, for a total of 38 resolutions.

Graph 9: Overview of the number of negative recommendations by Frontis Governance at FTSE MIB AGMs over the past three years. The percentages represent the ratio between the number of proposals that received a negative Frontis Governance recommendation and the total number of proposals in each category.



Graph 10: Vote in favour of the Remuneration Report among FTSE MIB companies (ordered by level of support), and colour coded by Frontis Governance vote recommendation.



²¹ <http://www.frontisgovernance.com/en/>

²² <http://www.ecgs.org/partners>

3. CORPORATE GOVERNANCE DEVELOPMENTS

3.1 Non-financial reporting

Following the publication of European Directive 2014/95 on non-financial reporting, and a public consultation by the Ministry for the Economy and Finance, on 30 December 2016 the Italian Parliament issued Legislative Decree 254, providing for certain disclosure obligations applicable to companies meeting the economic and/or size requirements therein indicated. The provisions in the decree will be applicable to reporting on financial years from 1 January 2017.

On 5 July 2017 the European Commission released an official Communication (2017/C215/01)²³ providing additional information on the content of the non-financial obligations as well as on the principles of clarity, correctness and completeness to be observed in the disclosure process. Such recommendations are however not binding, having the sole scope of supporting the companies in collecting and communicating the relevant information package²⁴.

On 2 February 2017 the London Stock Exchange Group and Borsa Italiana published²⁵ their Guidance for issuers on the integration of ESG into investor reporting and communication, to support companies in disclosing relevant information on extra financial reporting, as such information is increasingly used by investors to obtain a complete picture of the opportunities and risks embedded in a company's business. "Therefore it is becoming more and more important for companies and other issuers to communicate with investors clearly and accurately on these aspects of their performance. The intention of this Guidance is to help companies gain a clear understanding of what ESG information they should provide and how they should go about providing it."²⁶

The guidelines indicate eight pillars which an ESG reporting process should go through:

- Strategic Relevance;
- Investor Materiality;
- Investment Grade Data;
- Global Frameworks;
- Reporting Formats;
- Regulation and Investor Communication;
- Green Revenue Reporting;
- Debt Finance.

²³ <http://eur-lex.europa.eu/legal-content/en/TXT/PDF/?uri=OJ:C:2017:215:FULL&from=en>

²⁴ The aim of these guidelines is to help companies disclose high quality, relevant, useful, consistent and more comparable non-financial (environmental, social and governance-related) information in a way that fosters resilient and sustainable growth and employment, and provides transparency to stakeholders. These non-binding guidelines are proposed within the remit of the reporting requirements provided for under the Directive. They are intended to help companies draw up relevant, useful concise non-financial statements according to the requirements of the Directive. Significant efforts have been made to avoid undue administrative burden, boilerplate disclosures, or a mere box-ticking exercise.

²⁵ <http://www.borsaitaliana.it/obbligazioni/greenbonds/socialbonds.htm>

²⁶ <http://www.borsaitaliana.it/notizie/news/iniziativa-mercato/esg.htm>

3.2 Debate over shareholder influence (Vivendi at Telecom Italia and Mediaset)

During the 2017 AGM season, French media group Vivendi pursued an active strategy in the Italian market, focusing its attention on Telecom Italia (the main Italian telecommunications company, where Vivendi is the biggest shareholder with a 24% stake) and Mediaset (the main Italian television company, controlled by Silvio Berlusconi, where during late 2016 Vivendi acquired 29% of voting rights).

At Telecom Italia's 2017 AGM, renewal of the full board was on the ballot. Vivendi proposed a slate of candidates qualifying as the Majority Slate (49.69% of votes cast, compared to 49.31% received by the second slate proposed by a group of institutional investors). As a result Vivendi's slate obtained two-thirds of Telecom Italia's board seats.

The European Commission approved the acquisition of de facto control over Telecom Italia by Vivendi, but the decision is conditional on the divestment of Telecom Italia's stake in Persidera^{27,28}. In July 2017 the CEO, Flavio Cattaneo, resigned resulting in a temporary reassignment of his powers between the Chairman and the Vice Chairman of the Board²⁹. However, in August 2017 Vivendi denied the existence of "de facto control" over Telecom Italia³⁰.

Vivendi also carried out an active campaign at Mediaset, after the failure of an agreement with Mediaset Premium and subsequent disputes^{31,32}. In particular Vivendi acquired, from 1 to 31 December 2016, up to 28.8% of Mediaset's share capital, corresponding to 29.94% of the voting rights³³. Fearing a hostile takeover, Mediaset reacted by censuring the behaviour of Vivendi for alleged market manipulation. The Italian Government also stepped in, claiming there was a lack of transparency and fairness³⁴. In this context AGCOM (the Italian authority on communication) on 21 December expressed concerns over the potential inconsistency between Vivendi's stake in both Mediaset and Telecom Italia, and Italy's anti-trust regulations preventing companies from holding "excessive" market share both in telecommunications and media³⁵. In April 2017 AGCOM issued a decision obligating Vivendi to propose a plan to restore compliance with the legal threshold³⁶. Despite the absence of a clear solution to this conflict at this time, there have been reports about the possible transfer of Vivendi's stake in Mediaset above 10% of share capital to a blind trust³⁷, thereby removing the concentration of market share claimed by AGCOM.

On 28 June 2017 Mediaset held its AGM, where routine matters and a buy-back programme were approved. The approval of the share buy-back was particularly challenging given the need to obtain a large consensus among minority shareholders for a whitewash mechanism (to avoid triggering a mandatory public offer from either Fininvest or Vivendi as a result of the holding thresholds).

²⁷ The European Commission raised concerns about the concentration of the market share in television market resulting from the acquisition by Vivendi of the control of Telecom Italia (which owned Persidera, the Italian operator broadcasting digital TV signal) accordingly "The decision is conditional on the divestment of Telecom Italia's stake in Persidera".

²⁸ http://europa.eu/rapid/press-release_IP-17-1475_en.htm and <http://www.reuters.com/article/us-telecom-it-m-a-vivendi-eu-idUSKBN18Q1EH>

²⁹ <http://www.ilsole24ore.com/art/finanza-e-mercati/2017-07-22/il-divorzio-cattaneo-cda-tim-spaccato-ma-vivendi-ha-maggioranza-tasca-191906.shtml?uuid=AECALd1B>

³⁰ <https://www.reuters.com/article/us-vivendi-telecom-italia/vivendi-denies-it-controls-telecom-italia-under-italian-law-idUSKBN1AN22X>

³¹ <https://www.bloomberg.com/news/articles/2016-09-08/mediaset-said-to-file-complaint-against-vivendi-over-tv-deal>

³² http://www.ansa.it/english/news/business/2016/07/26/vivendi-wont-honour-mediaset-contract-4_03f4577d-26fe-42f4-93b3-4495f7f68a68.html

³³ <http://www.ilfattoquotidiano.it/2017/02/24/mediaset-vivendi-le-tappe-dallaccordo-di-aprile-fino-allinchiesta-per-aggiotaggio/3414681/>

³⁴ <http://www.ilgiornale.it/news/economia/mediaset-calenda-contro-vivendi-operazione-opaca-1346425.html>

³⁵ <http://www.reuters.com/article/us-mediaset-vivendi-agcom-idUSKBN1510LQ>

³⁶ <https://www.agcom.it/documents/10179/7421815/Comunicato+stampa+18-04-2017/caa8d966-d492-4f19-a50f-059360a906ff?version=1.1>

³⁷ <http://www.reuters.com/article/us-vivendi-mediaset-regulator-idUSKBN1A1ITV>

3.3 Conversion of cooperative banks into joint stock companies

During 2016 and 2017 the major Italian cooperative banks carried out material extraordinary transactions to comply with the new article 29 of Legislative Decree 385 of 1 September 1993 (the "Italian Consolidated Banking Act")³⁸, regarding the conversion of Italian large cooperative banks. Additionally the sector witnessed considerable consolidation to create larger players, better able to face their national and international competitors (for example, Banco BPM, a joint stock company, was formed through the merger and transformation of two cooperative banks, Banco Popolare and Banca Popolare di Milano).

Therefore during 2017 BPM and BPER, two former cooperative banks, held their first AGMs as joint stock company (while UBI Banca, which completed the conversion in late 2015 already qualified as a joint stock company before its 2016 AGM).

The AGM results of these companies showed high levels of support from their shareholders on all AGM proposals despite a limited quorum. The 2017 AGM quorums were 34.48% at Banco BPM, 38.13% at BPER and 47.48% at UBI Banca.

³⁸ <https://www.bancaditalia.it/compiti/vigilanza/intermediari/Testo-Unico-Bancario.pdf>



Spain





Spain Highlights

- The average quorum for IBEX 35 companies during the 2017 AGM season was 71.70%, compared to 68.17% in 2016.
- Among IBEX 35 companies one issuer had one management-proposed resolution rejected by shareholders. This proposal related to the shortening of the notice period for calling an EGM to 15 days.
- In our IBEX 35 sample, the most commonly contested resolutions related to the approval of the remuneration report, followed by director elections. The third most commonly contested resolutions were share issuance authorities.
- During the 2017 AGM season 17 companies out of the IBEX 35 received at least one negative recommendation from ISS, 16 companies received at least one negative recommendation from Glass Lewis and 26 companies received at least one negative recommendation from ECGS.

1. VOTING IN SPAIN

1.1 Quorum overview

Georgeson has analysed the quorum levels of IBEX 35 and IBEX Medium Cap companies for the past five years. This year's review includes the 35 companies that are part of the IBEX 35 and the 18 companies that are part of the IBEX Medium Cap as of 31 July 2017, and which held their AGMs between 1 August 2016 and 31 July 2017.

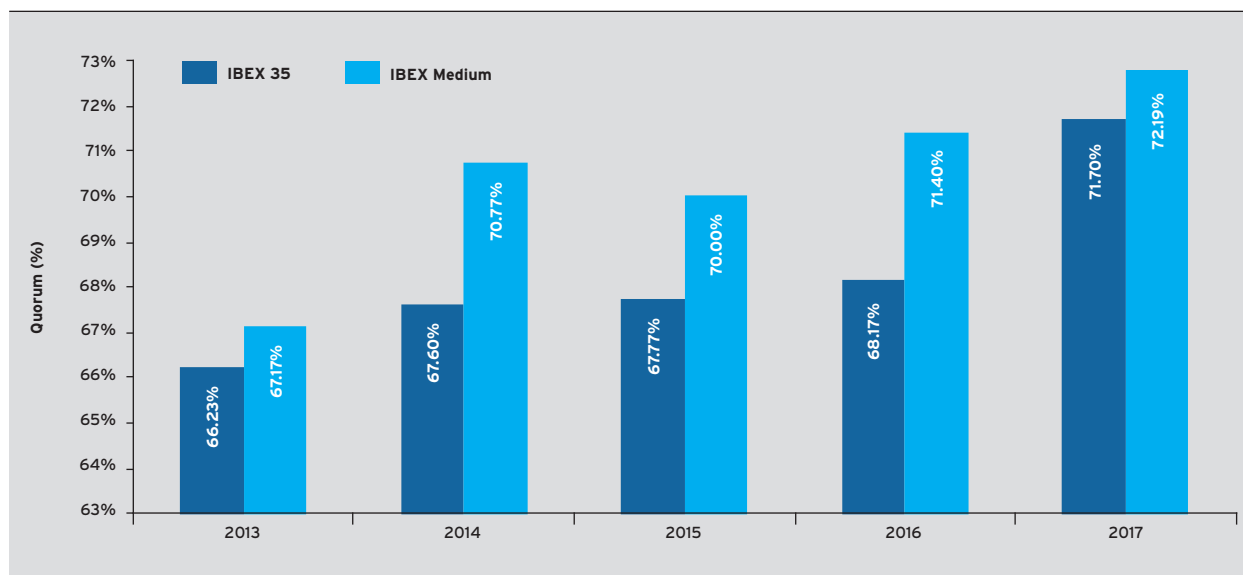
The average quorum for the IBEX 35 was 71.7% in 2017, while for the IBEX Medium Cap it was 72.2%. Both average quorums show a positive trend since 2013, especially remarkable at IBEX 35 companies, which increased by more than 3.5 percentage points since 2016.

Among the top five IBEX 35 companies in terms of quorum, four companies experienced an increase in quorum between 2016 and 2017. The highest increase in shareholder participation was recorded by Siemens Gamesa (+25.6 percentage points). If we consider the top five IBEX Medium Cap companies, only three experienced a slight increase in quorum between 2016 and 2017.

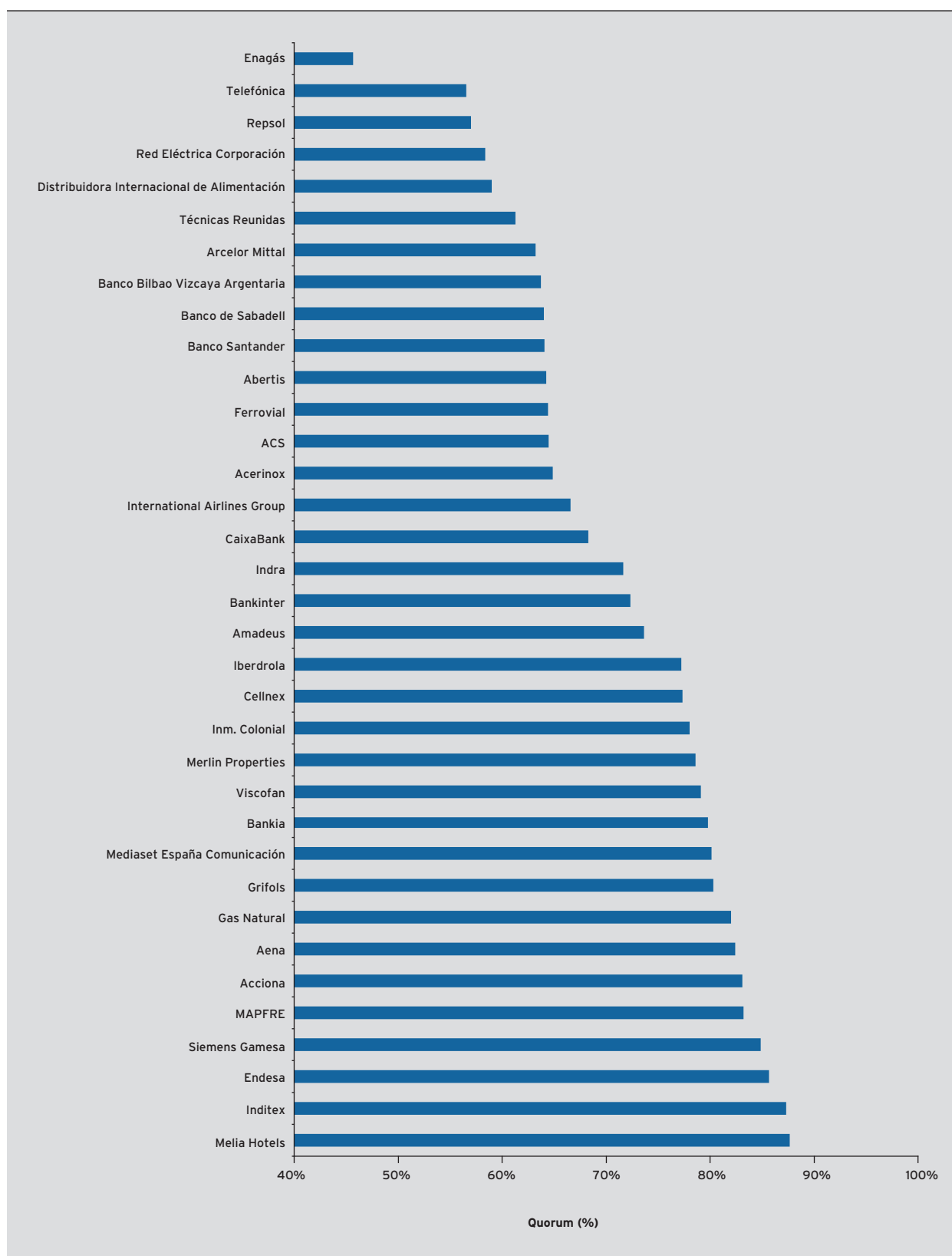
It is worth mentioning that, among the five IBEX 35 companies with the highest free float, one company obtained above average shareholder participation: Amadeus (73.63%). The other four companies received the following 2017 AGM quorums:

- Distribuidora Internacional de Alimentación (58.99%)
- Banco Bilbao Vizcaya Argentaria (63.71%)
- Banco de Sabadell (63.98%)
- Banco Santander (64.03%)

Graph 1: Average AGM quorum levels in the IBEX 35 and IBEX Medium Cap between 2013 and 2017.



Graph 2: Quorum levels at IBEX 35 companies during the 2017 reporting period.



1.2 Rejected resolutions

We have reviewed the meeting results for the 35 companies in the IBEX 35 and the 18 companies in the IBEX Medium Cap which held their AGMs between 1 August 2016 and 31 July 2017.

Within this sample, one company had one resolution rejected by shareholders: Caixabank (with 64.63% in favour¹). The rejected resolution was an authorisation to shorten the notice period for calling EGMs to 15 days, which requires a two-thirds majority of the company's issued share capital (not just the shares voted) in order to be approved.

The other companies in our sample with the lowest level of support on this resolution (and with a vote result close to the minimum required for shareholder approval) were:

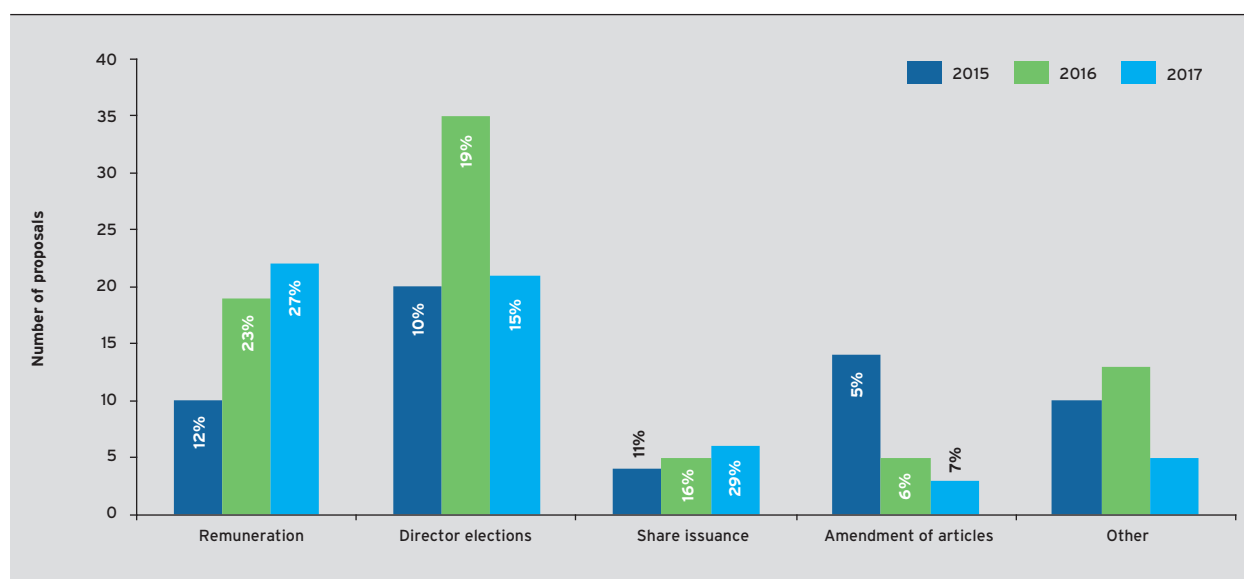
- Inmobiliaria Colonial (67.29% in favour)
- Hispania (68.81% in favour)
- Merlin Properties (69.28% in favour)

1.3 Contested resolutions

Among our IBEX 35 sample, 23 companies saw at least one management-proposed resolution receive more than 10% shareholder opposition for a total of 57 resolutions. This compares to 77 contested resolutions during the 2016 season and 58 contested resolutions during the 2015 season.

In the IBEX 35, the most commonly contested resolutions were related to remuneration, where 22 resolutions received more than 10% against votes (representing 27% of that category). However, proposals relating to the issuance of shares received the highest percentage of against votes in 2017, with 29% of that category (although the number of proposals was limited to six).

Graph 3: Number of resolutions which received more than 10% against votes in the IBEX 35 (by resolution type). The percentages represent the ratio between the number of proposals that received more than 10% against and the total number of proposals in each category.



¹ https://www.caixabank.com/deployedfiles/caixabank/Estaticos/PDFs/Informacion_accionistas_inversores/Gobierno_corporativo/Junta_General_Accionistas/2017/CABK_Quorum_JGA17_es.pdf

1.3.1 Remuneration

Spanish law² requires companies to submit their remuneration report for non-binding shareholder approval annually, in addition to a binding remuneration policy proposal at least every three years. This year, at IBEX 35 AGMs, 22 resolutions regarding remuneration matters received more than 10% negative votes.

The companies with the lowest levels of support were:

- Merlin Properties (52.65% in favour of the remuneration report; 54.29% in favour of the remuneration policy)
- Grifols (57.38% in favour of the remuneration policy; 62.32% in favour of the remuneration report)
- ACS (59.26% in favour of the remuneration report)

1.3.2 Director elections

During the reporting period board elections included 21 resolutions with more than 10% against votes. In line with last year, lack of independence and the combination of Chairman and CEO roles were the main motivations for negative shareholder votes. Spanish legislation does not require the separation of roles or set specific thresholds for board independence. However, the Code of Good Governance recommends that external (non-executive) directors constitute a broad majority of the Board and that independent directors amount to at least half of the board (except for controlled companies, in which case the number is reduced to one-third).

The companies with the lowest levels of support were:

- Amadeus (Francesco Loredan - 65.46%, Marc Verspyck - 66.77%, Stuart McAlpine - 67.20%, Roland Busch - 68.67%, and José Antonio Tazón García - 72.30% in favour)
- Telefónica (Ignacio Moreno Martínez - 72.34% in favour)
- Repsol (Antonio Massanell Lavilla - 72.34% in favour)

1.3.3 Share issuance

In compliance with Spanish Companies Law³, Spanish companies may seek shareholder approval to issue new shares for a maximum period of five years. Shareholders can delegate to the board the authority to increase the company's share capital without prior consultation of the general meeting of shareholders. The total increase cannot exceed 50% of the company's share capital at the moment the resolution was passed. This year, at IBEX 35 AGMs, six authorities to issue shares received more than 10% negative votes.

The resolutions with the lowest levels of support in the IBEX 35 index were:

- Enagás (76.75% in favour)
- Inmobiliaria Colonial (82.53% in favour)
- International Airlines Group (83.22% in favour)

² Article 529 novodecies - Point 1 of Spanish Companies Law: Real Decreto Legislativo 1/2010, de 2 de julio, por el que se aprueba el texto refundido de la Ley de Sociedades de Capital (last update: 4 December 2014).

³ Article 297 - Point 1a and 1b of Spanish Companies Law.

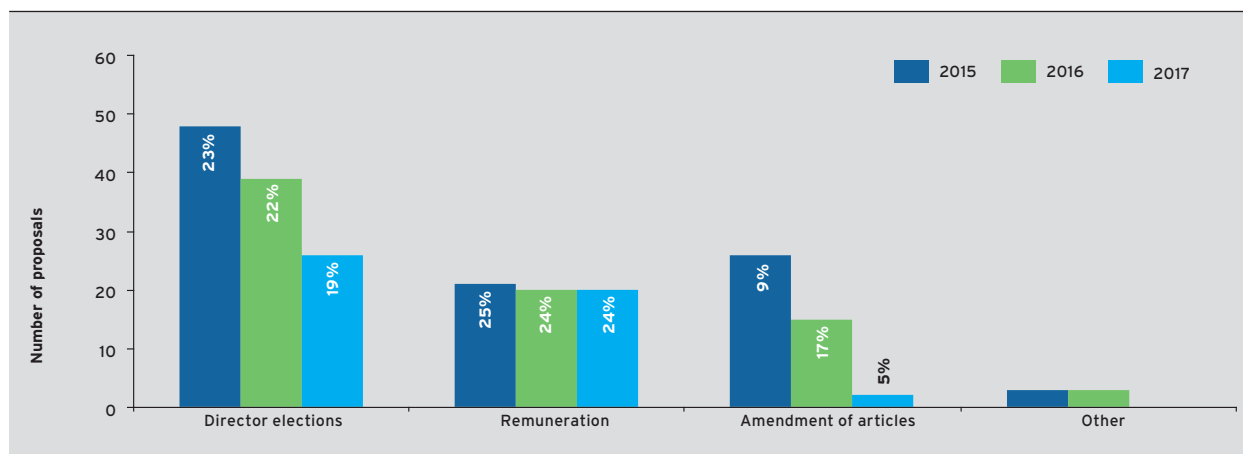
2 PROXY ADVISORS

Many institutional investors rely on proxy advisory firms, such as ISS, Glass Lewis and ECGS, for meeting agenda analysis and vote recommendations to inform their voting decisions. A negative recommendation from a proxy advisor can have an adverse impact on the vote outcome of a given resolution.

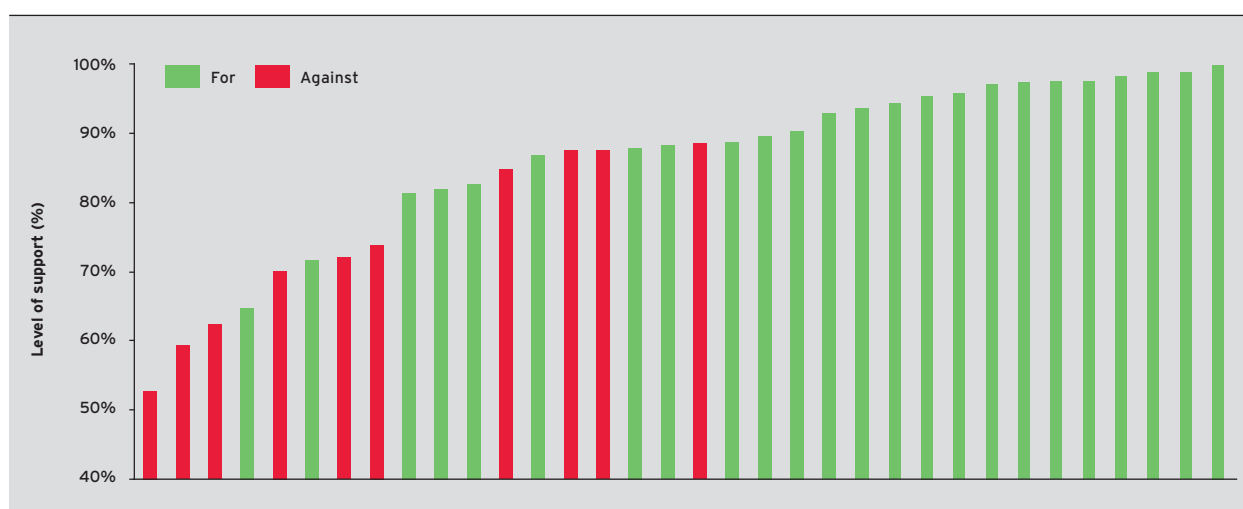
2.1 ISS

Institutional Shareholder Services⁴ (ISS) is a leading provider of corporate governance and responsible investment solutions for asset owners, asset managers, hedge funds and asset service providers. During the reporting period, 17 companies out of the IBEX 35 received at least one negative recommendation from ISS, for a total of 48 resolutions. The highest number of unfavourable recommendations were related to director elections, where 19% of those proposals received an against or abstain recommendation from ISS. The subject that received the highest proportion of contested resolutions is related to remuneration, where the ratio of resolutions with an unfavourable recommendation reached 24%.

Graph 4: Overview of the number of negative recommendations by ISS at IBEX 35 AGMs over the past three years. The percentages represent the ratio between the number of proposals that received a negative ISS recommendation and the total number of proposals in each category.



Graph 5: Vote in favour of the Remuneration Report among IBEX 35 companies (ordered by level of support), and colour coded by ISS vote recommendation. Excludes ArcelorMittal.

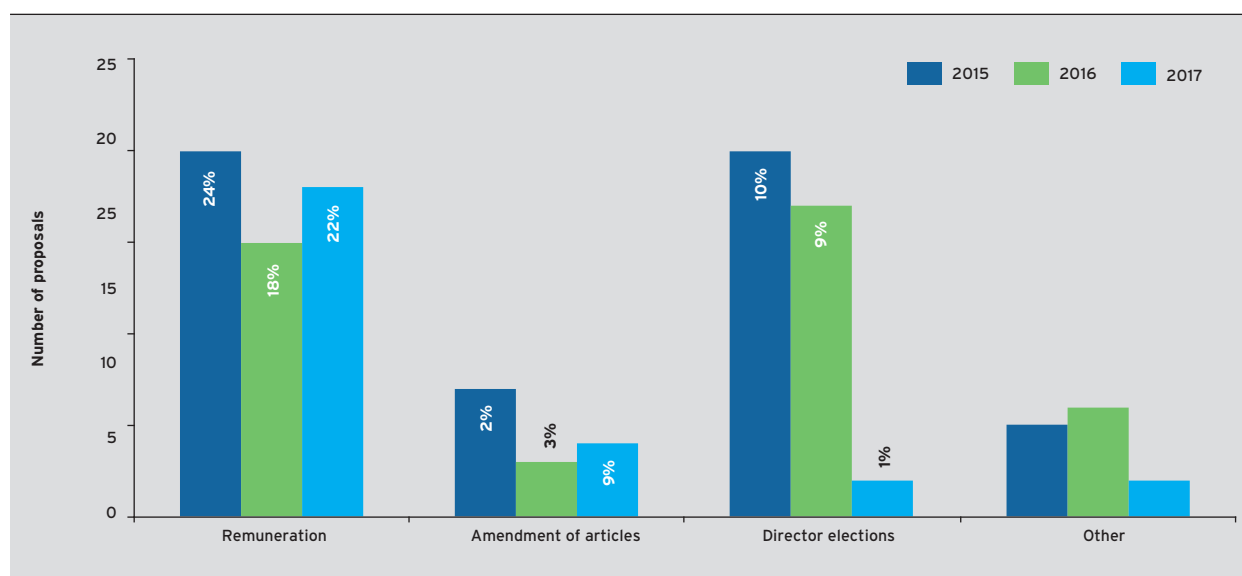


⁴ <http://www.issgovernance.com/about/about-iss/>

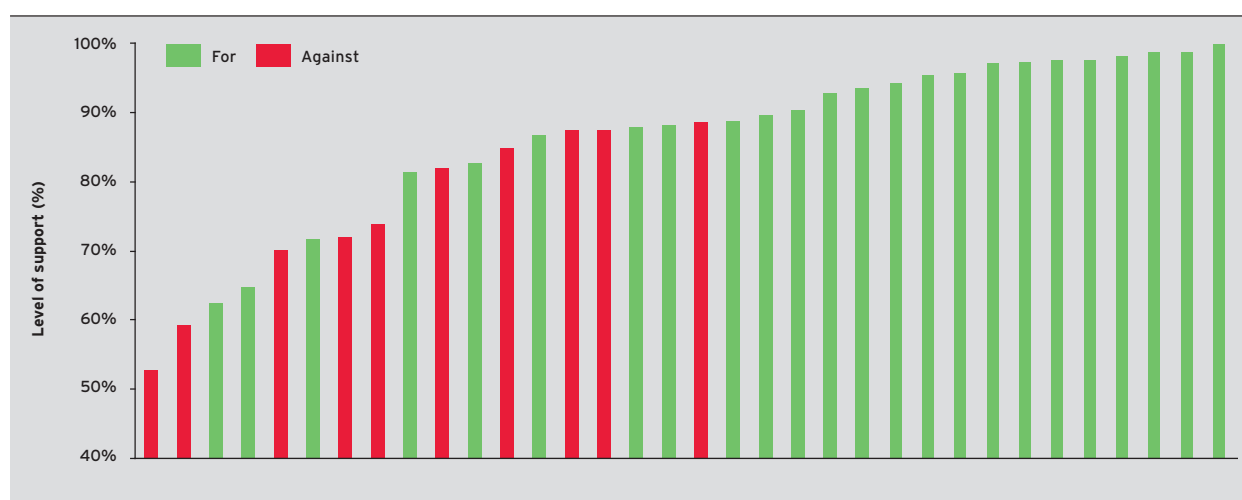
2.2 Glass Lewis

Glass Lewis⁵ is a leading provider of governance services that support engagement among institutional investors and corporations through its research, proxy vote management and technology platforms. For the reporting period, 16 companies out of the IBEX 35 received at least one negative recommendation from Glass Lewis, for a total of 26 resolutions. The highest number of negative recommendations is related to remuneration, which is also the subject with the highest proportion of contested resolutions, with 22% receiving an against or abstain recommendations from Glass Lewis.

Graph 6: Overview of the number of negative recommendations by Glass Lewis at IBEX 35 AGMs over the past three years. The percentages represent the ratio between the number of proposals that received a negative Glass Lewis recommendation and the total number of proposals in each category.



Graph 7: Vote in favour of the Remuneration Report among IBEX 35 companies (ordered by level of support), and colour coded by Glass Lewis vote recommendation. Excludes ArcelorMittal.



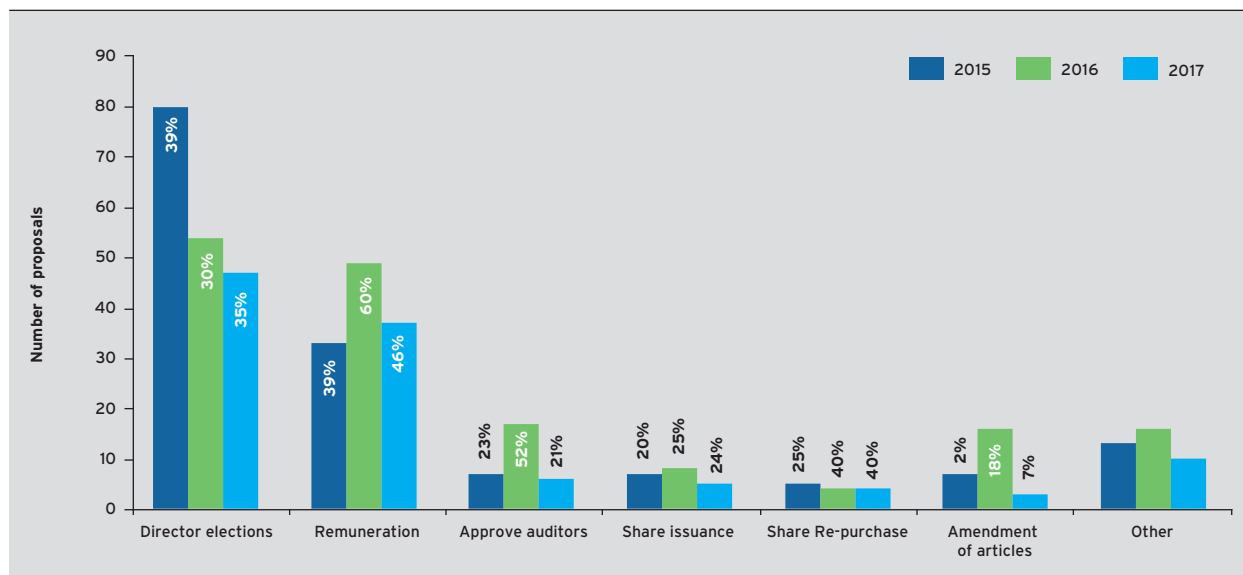
⁵ <http://www.glasslewis.com/about-glass-lewis/>

2.3 ECGS

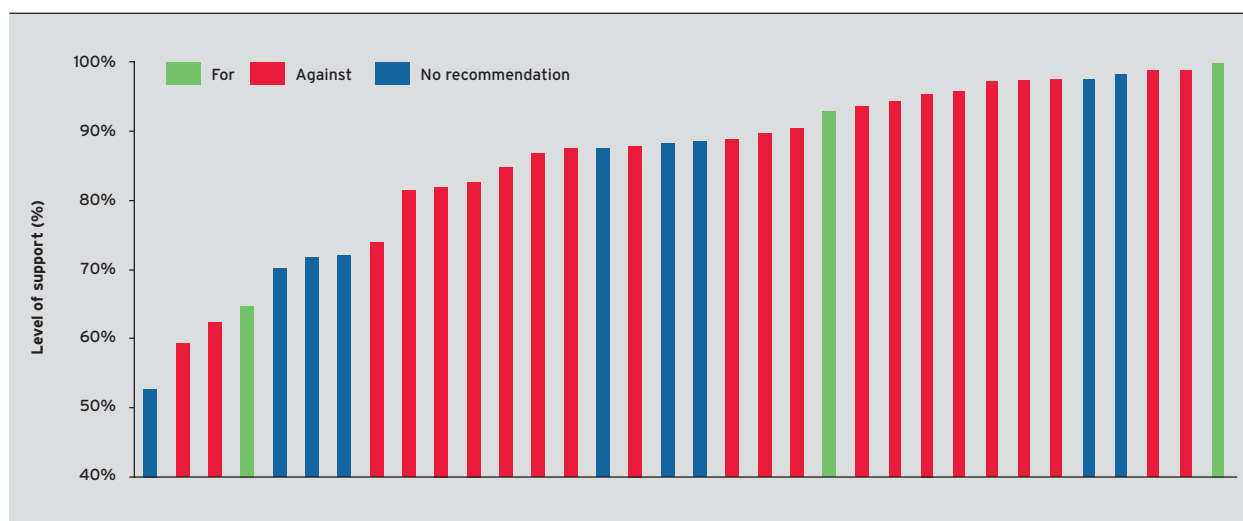
The Expert Corporate Governance Service⁶ (ECGS) is a partnership of independent local proxy advisors that was founded in 2001. ECGS analyses are carried out by each partner for their reference markets⁷.

For the reporting period, 26 companies out of the IBEX 35 received at least one negative recommendation from ECGS, for a total of 112 resolutions. The highest number of negative recommendations was related to director elections, where 35% of that category received an against or abstain recommendation from ECGS. The subject that received the highest proportion of contested resolutions is related to remuneration, where the ratio of resolutions with a negative recommendation was 46%. Indeed, only 3 out of the 25 AGMs for which ECGS provided an analysis, received a favourable recommendation on the remuneration report from ECGS during the reporting period.

Graph 8: Overview of the number of negative recommendations by ECGS at IBEX 35 AGMs over the past three years. The percentages represent the ratio between the number of proposals that received a negative ECGS recommendation and the total number of proposals in each category.



Graph 9: Vote in favour of the Remuneration Report among IBEX 35 companies (ordered by level of support), and colour coded by ECGS vote recommendation. Excludes ArcelorMittal.



⁶ <http://www.ecgs.org/about-ecgs>

⁷ In early 2017, ECGS entered into a partnership with Spain's CORPORANCE Asesores de Voto, the first local proxy advisor and provider of advisory services in Spain and Portugal. Before this agreement, these markets were covered by Frontis Governance, the Italian partner of ECGS.

3. CORPORATE GOVERNANCE DEVELOPMENTS

Spain has faced significant changes in hard law and soft law in the area of corporate governance since the end of 2014, developing several issues from a “comply or explain” principle to a specific regulatory requirement that is driving Spanish listed companies to enhance their alignment with international best practices.

Considering these recent reforms (the updated Spanish Corporate Enterprises Act, the new Code of Good Governance approved on February 2015 by the Spanish stock market regulator, or the new Spanish Audit Act - LAC - approved in June 2016) no legal changes are expected this year.

3.1 CNMV's 2017-2018 work plan

The Spanish stock market supervisor, Comisión Nacional del Mercado de Valores (CNMV), continues to work towards an increase in transparency and the encouragement of the exchange of information among market players by drawing up an annual work plan. According to the 2017-2018 work plan, amongst the most relevant issues worth highlighting, given the impact on Spanish listed companies, are that the CNMV will continue to pay special attention to listed companies' corporate governance practices and will maintain its policy of publishing technical guides to increase transparency on its guidelines and facilitate regulatory compliance by the supervised entities⁸.

Technical guide

The CNMV has approved in June 2017 a technical guide to improve the operation of audit committees⁹. This technical guide tends to gather additional criteria beyond what is already included in hard law (Spanish Audit Act, Spanish Corporate Enterprises Act) or in the Code of Good Governance. The constant dialogue between the CNMV and financial entities, auditors, professionals and other national and foreign supervisors revealed doubts regarding the scope of audit committees' functions and their responsibilities and has permitted the identification of good practices. In addition, the CNMV considers this technical guide very useful for public interest entities, which until the entry into force of the Spanish Audit Act (LAC) were not required to constitute an audit committee.

Review of the IAGC and IAR templates

It is also worth mentioning that, in order to continue improving companies' corporate governance framework, the CNMV is currently reviewing the templates that Spanish listed companies should publish annually, regarding to the Annual Corporate Governance Report (IAGC) and the Annual Remuneration Report (IAR) with the objectives of improving the format, avoiding duplication and increasing its flexibility for companies. In this regard, it is worth mentioning that the supervisor has consulted with several corporate governance experts, including Georgeson, with the intention of gathering feedback from the market to implement these improvement.

According to the work plan, this activity should be concluded in the second half of 2017, to be available for companies next year, however the achievement of this commitment does not depend solely on the CNMV.

⁸ In exercise of the power conferred by art. 21.3 of the consolidated text of the Securities Market Law (Ley del Mercado de Valores).

⁹ <https://www.cnmv.es/portal/Legislacion/verDoc.axd?t={13435d2c-5f60-47e8-b20f-f15e57f4f6f3}>

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Beijing 100738

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75001 Paris
France

Georgeson Germany

Elsenheimerstr. 61
80687 Munich
Germany

Georgeson Hong Kong

Hopewell Center (46F)
183 Queen's Road East
Wan Chai
Hong Kong

Georgeson Italy

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