DEUTSCHES AKTIENINSTITUT MiddleNext QCA The Quoted Companies Alliance

EUROPEAN CORPORATE GOVERNANCE GUIDELINES

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Foreword

The Quoted Companies Alliance, the UK association representing quoted companies, together with MiddleNext, the French association representing listed SMEs and mid-cap companies, and Deutsches Atkieninstitut, the German association representing listed companies, have produced a set of common corporate governance guidelines.

Our goal is not to create a European code that would supersede national ones but to highlight the need for a proportionate and principles-based approach to corporate governance, as opposed to one that is one-size-fits-all.

These high-level principles aim to identify and address the corporate governance issues which are relevant to small and mid-cap quoted companies throughout Europe.

Introduction

These corporate governance guidelines aim to promote effective corporate governance in small and mid-cap quoted companies throughout Europe. Behaviours and engagement are key aspects of corporate governance and companies should seek constructive and active engagement between their boards and shareholders alongside implementing governance structures and policies.

1. Structure and process - corporate governance statement

Suggestion: The company should publish in its annual report a corporate governance statement (the statement) in which it should refer to a governance code in use in its market. If the company does not apply one or more of the code's provisions, it should pay particular attention to its explanation, bearing in mind that good governance is applied to help achieve the company's long-term success. The board or, where applicable, the boards, should endorse the governance statement.

2. Structure and process - board and committee meetings

Suggestion: The statement must describe the way the (supervisory) board operates and this may include the number of meetings of the (supervisory) board and of the committees (when applicable) held yearly and individual board members' attendance at them. The Rules of Procedure or substantial extracts from them should be made public.

3. Responsibility and accountability

Suggestion: The statement should describe the role of the (supervisory) board, which types of decisions are to be taken by the board of directors or authorized by the supervisory board and which are to be taken by the management.

4. Board balance and size - composition

Suggestion: The company should disclose the identity of all the (supervisory) board members and their positions, particularly the roles of chair and CEO (when applicable), and committee memberships. It should also state their other current relevant operational responsibilities and directorships. Where the roles of chair and CEO are held by the same person, particular care should be taken to explain how the board ensures that power is not concentrated in too few hands.

5. Board balance and size - conditions of appointment

Suggestion: The company should describe the terms and conditions of appointment of non-executive directors or supervisory board members, including their code of ethics and compensation rules.

As an example, it may state loyalty, non competition, confidentiality, disclosure of conflicts of interests and the duty to abstain.

6. Board balance and size - independence

Suggestion: The company should disclose the independence criteria applicable to (supervisory) board members and the identity of those members the (supervisory) board considers to be independent and the reasons why it has determined a non-executive board member to be independent notwithstanding factors which may appear to impair that status. A company should have an adequate number of independent non-executive board members, with a minimum of one, and this number shall increase with the number of people sitting on the board.

7. Board skills and capabilities - individuals

Suggestion: The (supervisory) board should be composed in such a way that its members as a group possess the diversity, knowledge, ability and expert experience required to properly complete its tasks. The (supervisory) board shall take account of the specifics of the enterprise, its international activities, potential conflicts of interest, and the degree of female representation and other aspects of diversity.

Elections to the (supervisory) board should be made on an individual basis and terms for all directors should be adapted to the specifics of the company, within the limits set by the legal system. Sufficient information should be disclosed as to the relevant skills and experience that the (supervisory) board members bring to the (supervisory) board in order to enable shareholders to take an informed decision on the balance of the board and the election or reelection of board members.

8. Board skills and capabilities - creation of committees

Suggestion: The (supervisory) board should be supported by committees (audit, remuneration and nomination) that have the necessary character, skills and knowledge to discharge their duties and responsibilities effectively, if the (supervisory) board thinks it is appropriate. If, according to its own situation, the (supervisory) board decides not to create an audit committee but to organise specific board meetings to fulfil its duties itself, it should explain why and an appropriate independent director should take the lead. Whether or not the (supervisory) board creates such committees, the board and its committees should disclose how decisions are taken and conflicts of interests are managed.

9. Risk management and internal control - monitoring and disclosure

Suggestion: The (supervisory) board ensures that the internal control and risk management systems considered appropriate by senior management are implemented and subject to ongoing monitoring and adequate controls by senior management.

The company shall describe the main features of the company's internal control and risk management systems including those relating to the financial reporting process.

Notwithstanding any legal or regulatory requirement, companies shall describe the significant risks, including those arising from environmental and social issues, emerging from the company's business and strategy and how the company deals with them.

10. Risk management and internal control - auditor's independence

Suggestion: The company should disclose to shareholders how auditor objectivity and independence is safeguarded, particularly if the auditor provides significant non audit services.

11. Remuneration policy

Suggestion: The annual report on corporate governance should provide an oversight on remuneration policy and explain how the company's remuneration practices align the interests of directors and senior management with those of the profitable, sustainable growth of the company.

12. Shareholders' meetings transparency

Suggestion: Companies should disclose the detailed results of the votes as soon as practicable after their general meetings. Where votes are by show of hands, the votes by proxy received by the company, including abstentions or votes withheld, should be reported as soon as practicable after the meeting. Where votes are conducted on a poll the actual votes, including votes withheld or abstentions should be reported as soon as practicable after the poll.

13. General

Market practice and standards vary across Europe; as well as adopting these principles, companies should, of course, follow the standards prevalent within their markets, especially if they are more rigorous.

Guidance:

Companies are invited to use these guidelines as they apply their own national code:

Middlenext's "Governance Code" (France)

The Quoted Companies Alliance's "Corporate Governance Guidelines for Smaller Quoted Companies" (United Kingdom)

German Corporate Governance Code

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