



POLICY ON THE PRINCIPLES GOVERNING THE EXERCISE OF VOTING RIGHTS OF PUBLIC COMPANIES

PR-07 EXECUTIVE COMPENSATION

PR-07-01 Compensation conditions and disclosure

The compensation of a company's executives should be examined within the framework of its shareholder meetings. While keeping the company competitive, we expect the board of directors to demonstrate moderation when determining the level of compensation for executive officers. Compensation should therefore be structured so as to increase shareholder value while recognizing executives whose performance meets or exceeds the set objectives.

We favour a compensation policy in which a variable portion of compensation is linked to the company's results or the extent to which short and long-term objectives are met.

We expect the board of directors to take into account the consequences of the risks associated with the company's compensation policies and practices. The board of directors must therefore make complete disclosure of the measures taken to ensure that these policies and practices are aligned to long-term performance objectives and do not serve as incentives for members of management to take excessive risks.

The compensation plans must be subject to complete disclosure. All direct and indirect benefits, including pension plans and severance pay, must be transparently disclosed. Compensation plans must also take into consideration programs such as those for loans at preferred interest rates. Such programs constitute a different form of compensation that is integrated into total compensation.

The shareholders must be able to determine the extent to which executive compensation is justified by the company's results. The information published by the company must therefore be sufficiently complete and transparent to permit this comparison for all members of the company's senior management over a reasonable period of time. This data must allow for comparisons between management compensation and that of an appropriate reference group.

If the compensation committee uses the services of a specialized compensation firm, we encourage the company to disclose the name of this firm and provide a breakdown of the fees paid to it.

In addition to the general principles noted above, we particularly take into account the following aspects when examining a compensation plan:

- The explicit declaration by the board of directors of the compensation policy and program in effect, the principles followed with respect to executive compensation, the relationship between these principles and the company's strategic objectives, performance objectives, and any changes thereto;

- The description of the process followed in establishing the structure of the incentive compensation program and its various components;
- The complete disclosure of all benefits, including pension plans and severance agreements;
- The performance criteria applied, notably for the attribution and acquisition of securities within an incentive compensation plan over the short and long term;
- The number of shares that may be acquired or the number of options that may become exercisable based on the achievement of performance objectives;
- The requirements established for executives and senior managers in terms of share ownership.

We may oppose the election of members of the compensation committee if compensation is not aligned to performance.

PR-07-02 Incentive compensation plans

The use of the term “securities” in the following section refers to any securities, mechanisms or other type of vehicle targeted in incentive compensation plans.

For the purposes of this policy, compensation plans include the following:

- i. Stock option plans;
- ii. Stock appreciation rights that include the issuance of shares;
- iii. Any other compensation or profit-sharing mechanism that involves the issuance or possible issuance of the issuer’s shares;
- iv. Any other compensation or profit-sharing mechanism that provides the right to the monetary equivalent of the value of a stipulated number of shares over a given time period without requiring the issuance, purchase or sale of shares.

We expect that the majority of incentive compensation will be based on performance programs rather than simply on the passage of time. Incentive compensation plans must also be established based on certain principles, as listed below.

- **Price** — Securities should be issued at no less than 100% of the current fair market value and should have a vesting period that extends between three to five years.

Stock options should carry an expiration period of no more than ten years.

- **Dilution** — The dilution implied by all stock-based compensation plans must reflect acceptable industry standards.

As a rule, we do not support stock-based incentive compensation plans that represent more than 5% of all shares outstanding and a burn rate higher than 1% annually.

However, we can accept certain plans that represent up to 10% of the shares outstanding and a burn rate of 2% if they meet one or more of the following criteria:

- The plan is open to a broad number of managers or to all employees;
 - The company is in a competitive situation and must meet certain industry standards;
 - The company is in a difficult financial situation;
 - The company is the result of a merger in which a number of programs have to be combined, requiring a period of adjustment;
 - The company has a compensation policy significantly below that of the market and favours this plan as a performance incentive.
- **Changes to the exercise price of securities** — We are opposed to reductions in the exercise price of securities.
 - **Change in control** — We may support stock-based incentive compensation plans that include clauses regarding a change in control, provided that such clauses do not allow securities holders to receive more for their securities than shareholders receive for their shares. We are opposed to clauses in stock-based compensation plans relating to a change in control that are adopted as part of a takeover bid.
 - **Discretionary powers of the board** — We do not support stock-based incentive compensation plans that give the board complete discretion to set the terms and conditions of the plans, whether the issue is the price of securities, type of vehicle, eligibility criteria or the replacement of securities. Such plans must be submitted to the shareholders with sufficiently detailed information about their scope, frequency and exercisable timeframe.
 - **Concentration** — We are generally opposed to stock-based incentive compensation plans that authorize the issuing of 20% or more of available securities to a single individual over the course of the same year.
 - **Acquisition of securities** — We are opposed to stock-based incentive compensation plans acquired at 100% at the time they are granted.
 - **Method of payment** — We are opposed to low-interest or interest-free loans used to purchase shares or exercise stock options.

PR-07-03 Pension plans

We favour complete and transparent disclosure of the terms and conditions of pension plans and other employee benefits.

We support the principle by which pension benefits should be based on the executive officer's base salary and not on the variable portion of the officer's compensation.

PR-07-04 Share ownership

We expect executives to be required to hold a minimum number of the company's shares in order to better align their interests with the long-term interests of shareholders. Executives should hold shares equivalent to a multiple of their salary as long as they are employed by the company and during a reasonable period of time after their departure.

PR-07-05 Recovery

The board of directors should adopt a policy or any measure that will allow for the recovery of incentive compensation paid to executive officers in cases of accounting restatements, fraudulent acts, negligence or wilful misconduct. Following the issuance of misstated financial results, the executive officers should be required to reimburse any compensation related to performance objectives that were not actually attained. The company should disclose these aspects.

PR-07-06 Advisory vote

We support resolutions to have companies adopt a vote on non-binding ratification of executive compensation policies and programs. This practice to consult shareholders enables them to have a say about these issues without involving them in the decisional process and the discretion exercised by the board of directors.

When we are asked to vote on executive compensation policies and programs as part of non-binding ratification, we analyze the entire structure of the compensation program on a case-by-case basis and the total amount of compensation in order to ensure it is not excessive.

We generally favour holding such a vote on an annual basis.

PR-07-07 Omnibus plans

We generally do not support omnibus plans. These plans combine more than three types of securities-based compensation and do not permit shareholders to vote on each plan component separately. If such a plan is in force, we decide whether to support the plan submitted to a vote on a case-by-case basis.

PR-07-08 Golden parachutes

We are opposed to excessive departure bonuses paid to a director or executive in the event of a merger, acquisition or similar financial transaction that results in a change in control of the company.

We are also opposed to departure bonuses or the acceleration of securities held when these incentives are triggered by a single event. We favour provisions calling for two triggering events, i.e. a change of control and an employment termination or major change in the person's functions.

Recruitment premiums are evaluated on a case-by-case basis. We notably take into consideration the performance of the company, internal vs. external recruitment, the other

compensation components, and industry practices. If external recruitment is involved, we take into account any loss incurred by an individual who had to leave a job for the new position.

PR-07-09 Pledging and hedging policy

We favour compensation plans that prohibit executive officers from making financial transactions that aim to hedge or pledge their unvested securities. These practices erode the relationship between the company's performance and the compensation granted via these securities.

However, we evaluate the companies that allow their executives to pledge a portion of their holdings on a case-by-case basis.