EUMEDION
CORPORATE GOVERNANCE FORUM

The executive and supervisory directors

The Hague, 11 October 2019

Ref: B19.15
Subject: Eumedion Focus Letter 2020

Dear executive and supervisory directors,

This is the 15th 'Focus Letter' that Eumedion, the corporate governance and sustainability platform for institutional investors, sends to Dutch listed companies. The focus areas highlighted below are topics we believe deserve your attention; not only because we deem them important for the company you manage or supervise, but also because they are of particular importance to Eumedion participants – who are responsible and engaged institutional investors. The topics raised in this letter tend to be discussed in the dialogues Eumedion facilitates between Dutch listed companies and Eumedion participants in the run-up to the 2020 general meetings, and occasionally also at the general meeting itself. Our two focus points for 2020 concern 1) remuneration policies and remuneration reports, and 2) the impact of climate change and the Paris Agreement.

Focus point 1: Remuneration policies and remuneration reports
Following the implementation of the revised EU Shareholder Rights Directive, all Dutch listed companies are required to submit their 2019 remuneration report for an advisory vote to the 2020 shareholders' meeting and the majority also has to renew their remuneration policy for the executive and supervisory directors.

In reviewing and preparing your company's remuneration policy for the 2020 annual general meeting we encourage you to consider the 2019 Eumedion principles for a sound remuneration policy for members of the management board of Dutch listed companies (see annex 1). We also encourage you to conduct meaningful engagement with all relevant stakeholders of the company, including shareholders and employees, prior to presenting the final remuneration policy proposal to the shareholders' meeting.

For shareholders it is also important that the company discloses its outreach and engagement efforts (e.g. how many shareholders and other stakeholders were approached?), what the key findings and themes were, and what, if anything, the company did to address those. Such disclosures allow the company to demonstrate its responsiveness to stakeholders' feedback and concerns.

We also encourage you to structure and present your remuneration report along the draft European Commission Guidelines on the standardised presentation of the remuneration report under the revised EU Shareholder Rights Directive.[1] Companies are in particular encouraged to demonstrate clear alignment of executive pay with the company's strategy and performance with at least disclosure of the performance measures, selection rationale and performance outcomes.[2]

Focus point 2: Impact of climate change and the Paris Agreement

In our 2017 Focus Letter, we requested all Dutch listed companies to analyse the potential risks and opportunities – both physical and transitional – related to climate change for their business model and strategy, and to disclose what concrete efforts are made to contribute to a carbon-neutral economy in the second half of this century. Climate change has also been a recurring topic on the agenda of dialogues with companies in the 2018 and 2019 AGM season.

Considering the fact that climate change is an urgent issue for the wider society and the commitment made by Dutch pension funds and asset managers to contribute to the realisation of the Dutch Climate Agreement, we would like to reiterate our expectations on this issue. Institutional investors increasingly require better information on climate change related risks and opportunities and on climate lobbying. The role of companies is crucial in achieving the goals of the Paris Agreement. Companies can contribute in various ways to the energy transition and carbon emission reduction.

In light of the above, in the 2019 management report we encourage you to disclose material information on climate change related impacts and how you achieve carbon emission reduction in your operations and across your entire value chain. We also expect disclosures on how your company contributes to the energy transition e.g. by setting specific targets consistent with the Paris Agreement's goal of limiting the global average temperature increase to well below 2 degrees Celsius above pre-industrial levels and to report on the progress in reaching these targets. With a view to producing relevant, useful and comparable disclosures, you are encouraged to disclose the climate-related information in accordance with the European Commission's Guidelines on reporting climate-related information (C(2019) 4490 final), as published on 17 June 2019. The Guidelines build upon the 2017 recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). We also encourage you to review the climate change positions adopted by trade associations and other organisations of which you are member of and to investigate whether these run counter to your own actions to contribute to the goals of the Paris

[1] https://ec.europa.eu/info/sites/info/files/rrg_draft_21012019.pdf
[2] We consider the 2019 remuneration reports of Unilever NV and Arcadis NV as good practices.

Agreement. We expect you to publicly report on the outcomes of this review, the potential areas of misalignment and the actions taken in that regard.

We are available should you require further clarification.

Yours faithfully,

Rients Abma
Executive Director

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ANNEX 1: EUMEDION REMUNERATION PRINCIPLES

Remuneration policy

1. The supervisory board[3] takes the initiative and is responsible for the drafting of a remuneration policy for the management board, as well as for the implementation and the results of this policy.
2. The remuneration policy for the management board and amendments to this are adopted by the general meeting. Schemes in the form of shares or rights to subscribe for shares and amendments to such schemes are submitted separately to the general meeting for its approval. If the supervisory board intends to increase the fixed salary of one or more management board members more than the (expected average) annual increase in the fixed salary of the employees of the company, this will be regarded as an amendment to the remuneration policy.
3. The remuneration policy for the management board is comprehensively evaluated at least once every four years by the supervisory board and the general meeting adopts continuation of the existing policy or modifications to this policy.
4. The remuneration policy for the management board is clear and understandable, is aligned with the long-term strategy of the company and the corresponding goals and contributes to the long-term value creation of the company. The remuneration policy for the management board contains no stimuli that may be detrimental to the task entrusted to the management board of serving the long-term interests of the company.
5. The structure and the amount of the remuneration of management board members are appropriate in relation to i) the identity, the purpose and the values of the company, ii) the pay ratios within the company, iii) the relevant (inter)national context and iv) the views of the relevant stakeholders, including shareholders, employees, customers and the wider society. The explanatory notes to the proposed (new) remuneration policy and the remuneration report should describe how these matters have been considered in the supervisory board discussions and decision-making. If a peer group is used to determine the appropriateness of the management board members' remuneration in relation to the (inter)national context, the composition of this group will be made public and explained. The supervisory board realises that management board members are required to serve as examples to the other employees of the company at any time.
6. The remuneration of management board members is based on a fixed salary. Any variable elements of the remuneration[4] are subject to a maximum determined in advance. The (conditional) granting and payment of variable elements of remuneration will always depend[5] on the achievement of goals[6] established in advance and also on the manner in which these goals have been achieved[7]. The assessment of any public or private bid, a legal merger or demerger or a major acquisition or

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[3] In the event that the company has decided to include executive directors and supervisory directors in a single company body (a one-tier management structure), the principles set out in this document that apply to "the supervisory board" also apply to the supervisory or non-executive directors. Wherever this document refers to "the management board" or "members of the management board" it should also be understood to refer to executive directors in the case of companies with a one-tier management structure.
[4] These are all remuneration elements which are not included in the fixed salary, are not pensionable, have been granted for a specific period of time and can be reduced on a discretionary basis, suspended or canceled.
[5] This means that members of the management board are not eligible for granting a retention, transaction or other extraordinary bonus.
[6] The term "goals" does not only include financial goals.
[7] The risks taken are among the factors that can be borne in mind in this context.

divestment is part of the regular activities of a management board member. These events are therefore not eligible for the grant of an - additional - variable compensation.

7. The variable remuneration components are only paid out in cash or in listed (depositary receipts for) shares. The term for the unconditional granting of long-term variable remuneration elements is long enough to do justice to the long-term strategy of the company and the corresponding goals. This term is at least three years.
8. Companies are recommended to also base the granting of variable remuneration elements on environmental, social and/or governance goals. All goals are clear, clearly quantifiable, time-bounded and stretching, have a direct relation with the company's strategy and the operational. The goals are measurable and transparent and linked to the company's performance.
9. The supervisory board has discretionary powers relating to the unconditional granting of long-term variable remuneration elements in order to counteract unfair consequences, such as in the event of a takeover and/or dismissal. This authority looks primarily on the ability of the supervisory board to make downward adjustments to the size of the variable, unvested, remuneration elements. In the event of a takeover bid, merger or demerger any conditionally granted shares and / or rights to shares are settled most in proportion to the elapsed performance period ('pro rata').
10. The rules relating to variable elements of remuneration contain a provision that variable remuneration elements that have already been made unconditional and/or have been paid can be recovered if it becomes clear in due course that they have been wrongly granted (in part), on the basis of incorrect (financial) information, the relevant person has not met suitable norms in respect of expertise and correct behaviour or has been responsible for conduct that has resulted in a significant deterioration of the financial position of the company. In such a case, the supervisory board initiates a procedure to recover the remuneration elements in question.
11. It is recommended that members of the management board hold a certain number of (depositary receipts for) shares in their 'own' company and that the shares are held for at least a certain period of time after leaving the company.

Remuneration report

12. The supervisory board renders account in the remuneration report for the implementation and the (appropriateness)[8]of the) results of the remuneration policy for the management board. The remuneration report shows how the actual payments, a.o. any variable elements of the remuneration, derive from the remuneration policy adopted, so as to enable the general meeting to monitor the implementation of this policy. Performance targets are described as well as the relative proportions between the performance targets. The remuneration report also contains, if applicable, a meaningful explanation of the use of 'discretion' by the supervisory board, as well as any amount that is recovered under the 'clawback authority' as mentioned in principle 10.
13. Companies are recommended to put the remuneration report to a vote as a separate item on the agenda at the general meeting.[9] If the supervisory board does not put the remuneration report to a vote

[8] On the basis of principle 5.
[9] From the 2020 general meetings onwards, it will be legally required to submit the remuneration report to the general meeting for an advisory vote.

at the general meeting, shareholders are unable to express their opinion directly on the implementation of the remuneration policy by the supervisory board. In that event, shareholders may take the remuneration report into consideration when deciding on their voting behaviour for other items on the agenda.