

ESG IN INCENTIVES

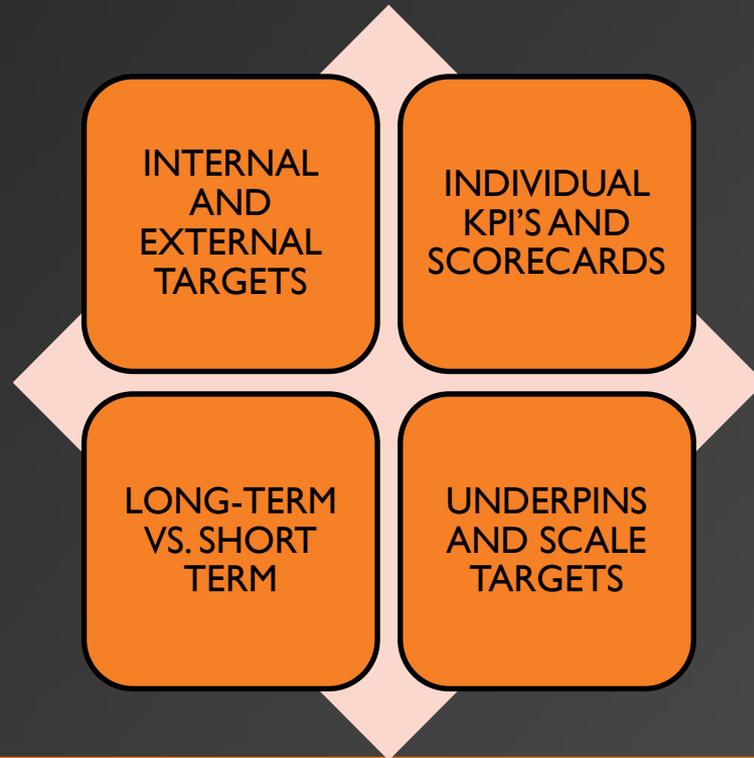
COMPONENTS OF ESG

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- Increasing pressure on companies to integrate ESG factors into their businesses
- Mostly external pressure but also internal
- Reflected in annual bonus and long term incentive plans (LTIPs)
- 80-90% of FTSE 100 companies now have ESG measures in executive pay
- Both general and sector-specific measures
- Social measures are most common in bonuses and environmental measures are most common in LTIPs

MEASURING ESG



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I. INTERNAL AND EXTERNAL TARGETS

- Shareholders prefer external targets **however** internal targets can be useful in achieving ESG targets in a more qualitative way
- Ideal approach is a mix of internal and external targets



MEASURING ESG

2. INDIVIDUAL KPI'S AND SCORECARDS

- A balance between being overly simplistic and excessively complex
- Multidimensional approach that includes a range of issues
- Unilever's sustainable living plan



Credit: Snam

UNILEVER'S SUSTAINABLE LIVING PLAN

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SPI Category	KPIs	SPI 2020		SPI 2019	SPI 2018	SPI 2017	
		Judgement	2019 actuals	2018 actuals	2017 actuals	2016 actuals	2015 actuals
USLP							
Health & Well-being	With our Dove brand help young people build up positive body confidence and self-esteem through educational programme (millions)	Over-achieved	>60m	35m	29m	23m	19.4m
Environmental Impact	Reduce CO ₂ emissions from energy from our factories per tonne of production vs 2008 baseline (%)	Over-achieved	-65%	-52%	-47%	-43%	-39%
	Increase the recycled plastic material content in our packaging (% purchased)	Partly achieved	5%	4845T (<1%)	4850T	3830T	4900T
Enhancing Livelihoods	Source our procurement spend through suppliers meeting the mandatory requirements of our Responsible Sourcing Policy (%)	Achieved	70%	61%	55%	67%	54%
	Reduce our Total Recordable Frequency Rate (TRFR) for accidents in our factories and offices (#)	Achieved	0.76	0.69	0.89	1.01	1.12
Transformational change agenda							
Sustainable Palm Oil	Purchase crude palm oil from physically certified sustainable sources (%)	Over-achieved	95%	81%	56%	42%	19%
External recognition							
Rankings and ratings*	Achieve Leader/A ratings (number)	Over-achieved	5 of 5	3 of 5	4 of 5	5 of 5	4 of 5
Annual SPI outcome			130%	125%	120%	120%	
Average SPI outcome for MCIP 2017-2020			124%				

* DJSI, CDP Climate, CDP Water, CDP Forests, GlobeScan

MEASURING ESG

3. LONG-TERM VS. SHORT-TERM

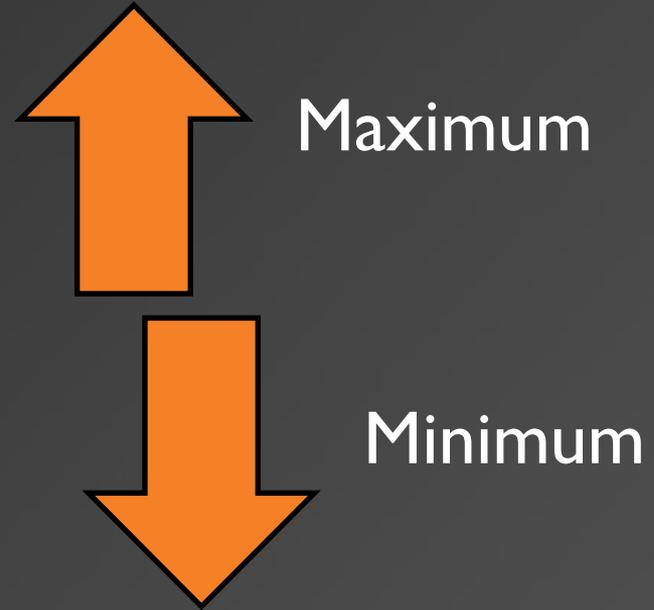


LTIP – focus on environmental

Bonus – focus on social metrics such as diversity, employee engagement and health & safety.

4. UNDERPINS & STRETCH TARGETS

- Gateway or stretch target?
- Gateway - health & safety
- Stretch - transformational objective



PRACTICAL CHALLENGES

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Which
measures to
use?

Overall goal
achieved?

Distract focus

Difficult to
calibrate



Developing
international
standards

More
complexity

No one size
fits all

Pulled in
different
directions?

WHAT TO FOCUS ON WHEN IMPLEMENTING

STRATEGY - are our chosen ESG measures aligned with strategy?

MEASUREMENT - what are our methods for assessing achievement?

RISK - have we considered and mitigated the risks of including ESG targets in pay?