

ENVIRONMENTAL METRICS IN EXECUTIVE REMUNERATION

Milan
30.03.2023

CERTAINTY

INGENUITY

ADVANTAGE

Georgeson

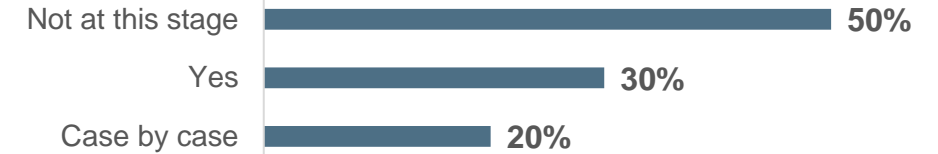


INSTITUTIONAL INVESTORS EXPECTATIONS

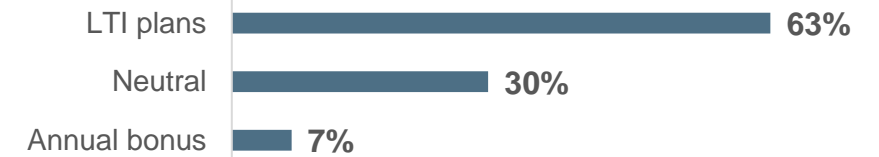
Georgeson's Institutional Investor Survey



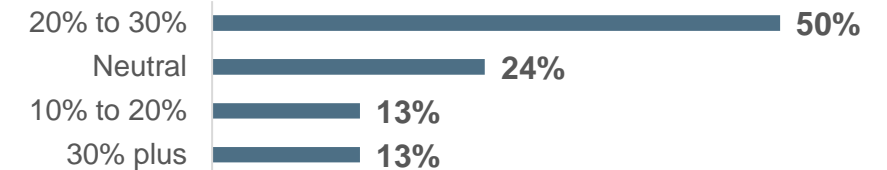
Will you act against companies that do not incorporate ESG metrics into executive incentive plans?



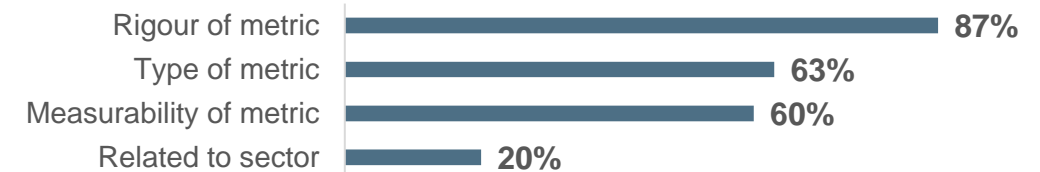
Should climate change related metrics form part of the Annual bonus or Long-Term incentive plans?



In general, is there a preferred overall variable weighting that should be linked to non-financial ESG metrics?



In addition to establishing a robust link between ESG metrics and business strategy, what concerns are you experiencing when assessing non-financial ESG metrics in executive pay?

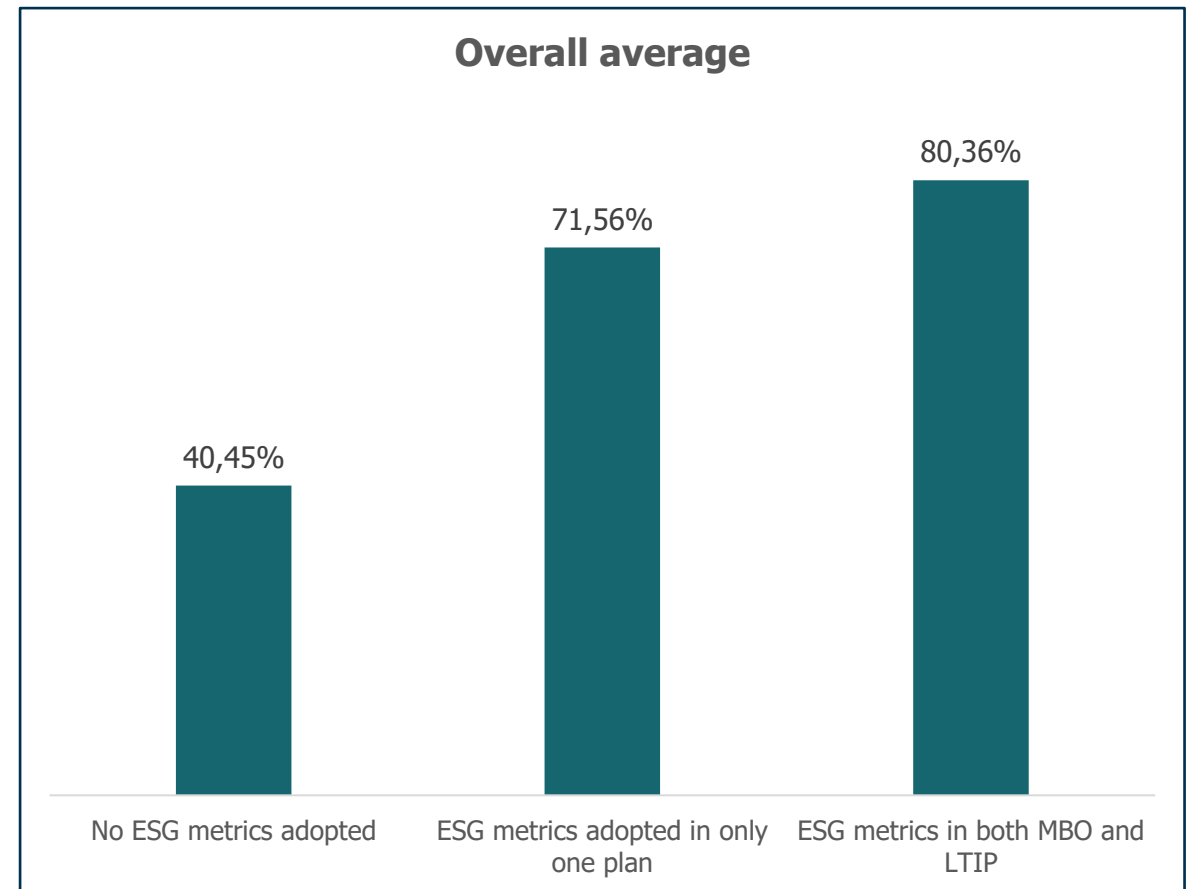
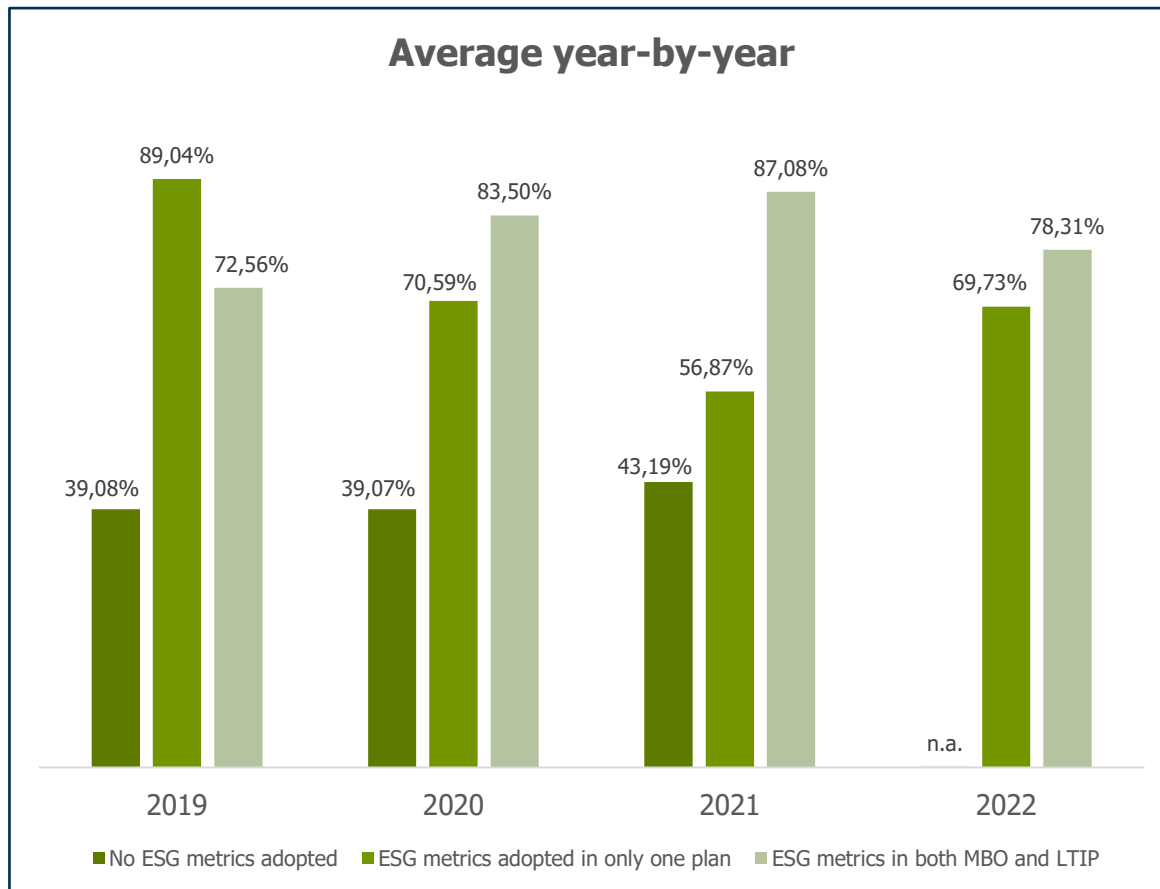


(Respondents could choose multiple options)

Minority support and ESG criteria

The graph below shows the average of minority votes in favour of the Remuneration Policy in the last four years, for three clusters of companies:

- > Companies that do not include ESG criteria in variable incentive plans (not even access gates, (de)multipliers, correction factors or any other performance conditions)
- > Companies that adopt them in only one variable incentive plan (short- or long-term)
- > Companies that include ESG criteria in both types of incentive plan.





“From our viewpoint as a responsible, long-term investor, two topics really stand out: **greater accountability with regards to credible climate transition targets** and continued **scrutiny of remuneration**. Throughout 2022 we continued to utilise our proxy voting power, to influence companies – this remains one of the most powerful tools we have to effect change. As we look towards the 2023 voting season, we will continue to utilise this form of **influence to help to shape a more sustainable future for the companies and society**, in the best interests of our clients.”

Last year, Allianz GI participated in 10,205 shareholder meetings and voted in more than 100,000 shareholder and management proposals. The firm voted against, withheld or abstained from at least one agenda item at 69% of all meetings globally, compared with 68% in 2021.

The biggest cause for disagreement was once again the compensation of management teams. Allianz GI voted against 43% of compensation-related resolutions proposed by management. Many companies fail to adopt long-term incentives that are truly aligned with the interest of shareholders.

“We generally vote against if we consider pay packages overly generous taking these aspects into account. As of 2023, we **further strengthen our voting guidelines with respect to sustainability aspects**: we expect European large-cap companies to include environmental, social and governance key performance indicators into their remuneration and would **vote against pay policies if this is not implemented**.”

Source: [Allianz GI targets directors of high emitting companies lacking credible net zero targets](#), 21/02/2023

Insight from institutional investors



“LGIM expects ESG topics to be incorporated into the strategy of the business, the delivery of which should inform how the business operates and its purpose.

Companies that are exposed to high levels of environmental, social or governance (ESG) risk should include relevant targets that are meaningful, measurable and aligned to the company’s strategy. E&S targets should be subject to third-party verification.

Companies within sectors that can have a significant effect on climate change should **link part of their pay to delivering on their climate mitigation goals**. The performance targets should be linked to SBTi approved/or equivalent transition plans aimed to achieve net zero by 2050 or sooner. Targets should also be set to create new opportunities that not only improve revenue, but also have a positive impact on climate.

By 2025, companies will be five years away from reaching their 2030 climate change transition goals. Therefore, from 2025, LGIM will be escalating its policy on climate change. To gain LGIM’s support for a new remuneration policy being put to shareholders from January 2025, **we will expect to see climate targets within the long-term plan**. These targets should be in line with stated transition goals to reaching net zero and across the full value chain. Ideally, they should be SBTi approved.

The **weighting for climate targets should represent at least 20%** of the overall LTIP award at these companies. For those companies that have adopted a restricted share plan, one of the underpins should be specific to achieving set transitional carbon reduction targets.”

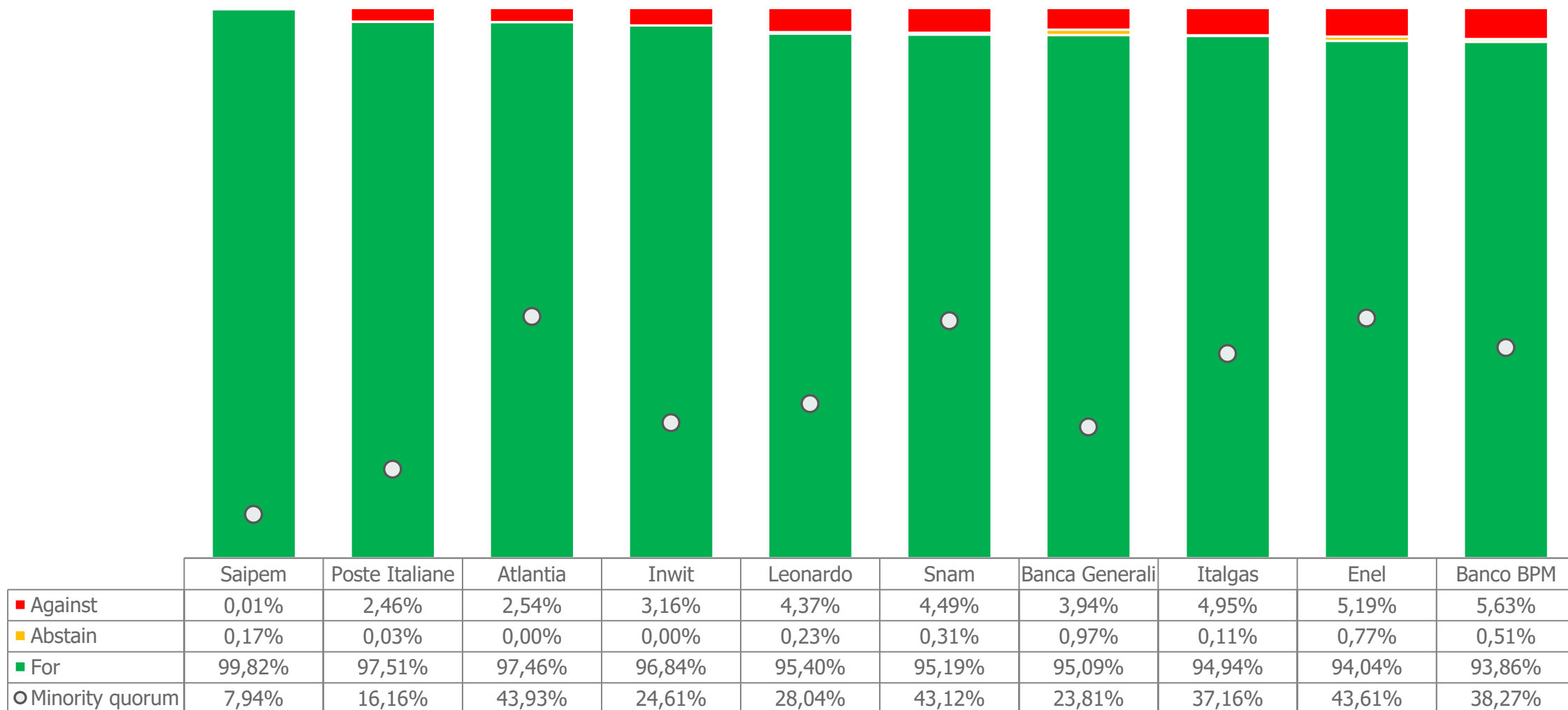
Source: [LGIM’s UK principles on executive pay](#). October 2022



REMUNERATION POLICY 2022

Minorities' support

Top 10 companies in the FTSE Mib



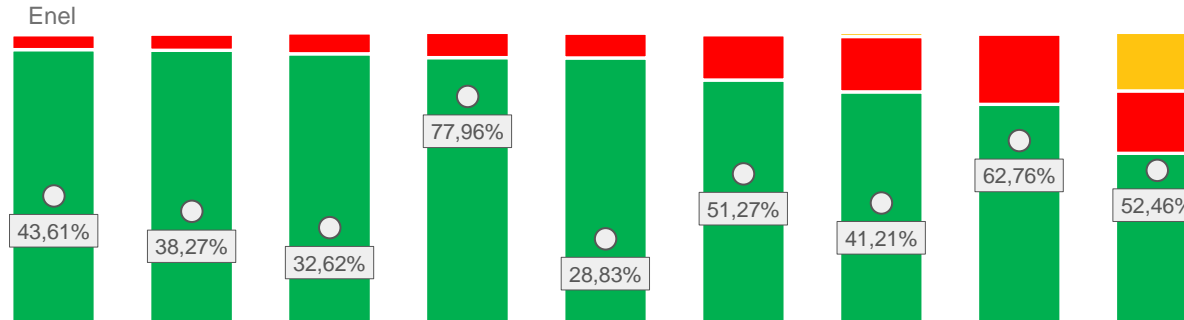
Note: the last Remuneration policy of Prysmian (approved by the 2021 AGM) received votes in favour from the 87.30% of the minority quorum.

Strategic shareholder weight vs voting results and minority quorum

Remuneration policy

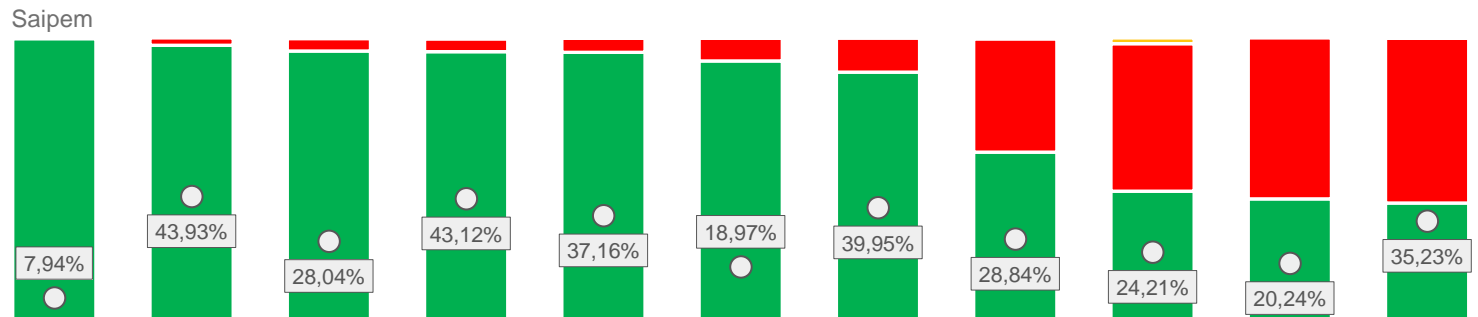
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Companies with strategic shareholder/shareholders' agreements weight **less than or equal to 25%** of the share capital



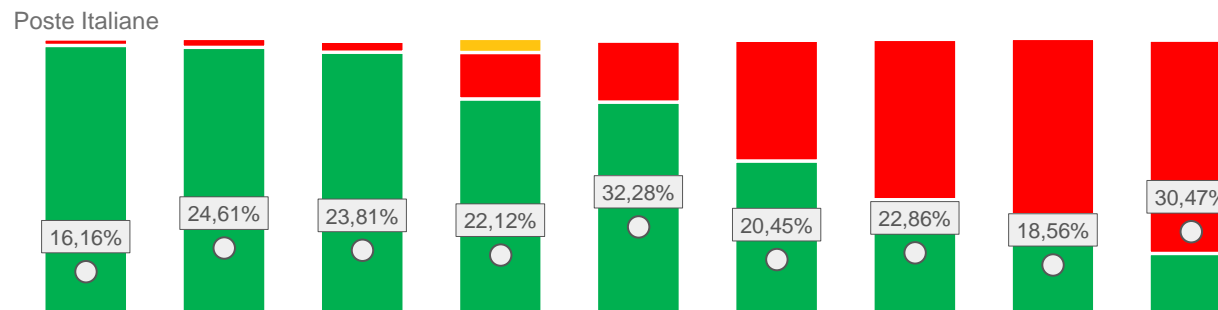
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Companies with strategic shareholder/shareholders' agreements weight **between 25% and 50%** of the share capital













3

Companies with strategic shareholder/shareholders' agreements weight **of 50% or more** of the share capital















Environmental metrics in variable incentives

Annual bonus

 Company	 KPI	 Weight
	CO ₂ emission reduction	Overall ESG component weight (tot. 3 KPI): 23%
	<ul style="list-style-type: none"> > Increase of installed renewable capacity; > CO₂ emission reduction (Scope 1 e 2) 	Environmental metrics weight: 25%
	CO ₂ emission reduction	Environmental metrics weight: 7,5%
	<ul style="list-style-type: none"> > Gas leakage rate > Reduction of energy intensity 	Environmental metrics weight: 15%
	CO ₂ emission reduction	Environmental metrics weight: 15%
	Energy from sustainable sources	Overall ESG component weight (tot. 3 KPI): 5%
	GHG emission reduction	Overall ESG component weight (tot. 2 KPI): 10%

Environmental metrics in variable incentives

LTI Plans

 Company	 KPI	 Weight
	Group GHG Scope 1 emission intensity reduction	Environmental metrics weight: 10%
	<ul style="list-style-type: none"> > Upstream GHG Scope 1 & 2 emission intensity reduction; > Development of electricity generation from renewables 	Environmental metrics weight: 25%
	Decrease in quantity of gas emitted by dispersions	Environmental metrics weight: 5%
	GHG Scope 1 emission intensity reduction	Environmental metrics weight: 10%
	<ul style="list-style-type: none"> > Carbon neutrality of Group offices; > Circular Economy: sustainable nylon use 	Overall ESG component weight (tot. 7 KPI): 20%
	CO ₂ emission reduction	Environmental metrics weight: 10%
	<ul style="list-style-type: none"> > % of waste recycled; > % reduction of GHG emissions 	Overall ESG component weight (tot. 4 KPI): 20%
	Reduction in natural gas emissions vs 2015	Environmental metrics weight: 10%
	% consumption of renewable energies	Environmental metrics weight: 15%



EXAMPLE OF DISCLOSURE IN THE FTSE MIB

Environmental sustainability vs Remuneration structure



Remuneration policy for the 2020-2023 term

The remuneration policy supports the achievement of the goals set in the Company's Strategic Plan by promoting, through a balanced use of performance measures in the short and long-term incentive systems, the alignment of senior management's interests with the priority of creating sustainable value for shareholders over the medium to long-term.

Criteria for the alignment of Remuneration Policy with the guidelines of the Strategic Plan

TABLE 4 – ALIGNMENT WITH THE STRATEGIC PLAN

Strategic drivers		Environmental sustainability and energy transition	Business integration and expansion	Operational and financial efficiency
STI Plan	Economic and financial results (25%)		✓	✓
	Operating results and sustainability of economic results (25%)	✓	✓	✓
	Environmental sustainability and human capital (25%)	✓		
	Efficiency and financial soundness (25%)			✓
LTI Plan	Normalised TSR (25%)		✓	
	NPV of proven reserves (20%)		✓	
	Organic Free Cash Flow (20%)			✓
	Decarbonisation (15%)	✓	✓	✓
	Energy transition (10%)	✓	✓	
	Circular economy (10%)	✓	✓	✓
Value creation for shareholders and other stakeholders				

Source: [Remuneration report 2022](#), page 13

STRATEGIC SUSTAINABILITY PLAN

AMBITION FOR A COMPANY...



		SOLID	GLOBAL	INNOVATIVE	SUSTAINABLE
MBO PLAN	EBITA	✓			
	FREE OPERATING CASH FLOW	✓			
	BOOK TO BILL	✓	✓		
	STRATEGIC PLAN ⁽¹⁾	✓	✓	✓	✓
	DOW JONES SUSTAINABILITY INDICES		✓	✓	✓
LTI PLAN	ACCIDENT FREQUENCY REDUCTION	✓			✓
	TOTAL SHAREHOLDER RETURN	✓	✓	✓	✓
	NET DEBT	✓			✓
	RETURN ON INVESTED CAPITAL	✓	✓	✓	✓
	CLIMATE CHANGE		✓	✓	✓
	GENDER DIVERSITY(STEMAREA)		✓	✓	✓

(1) Leonardo's stronger positioning in Defense Electronics

Source: [Remuneration report 2022](#), page 12

Environmental sustainability vs Remuneration structure



Link between the Strategic Plan and the Remuneration Policy

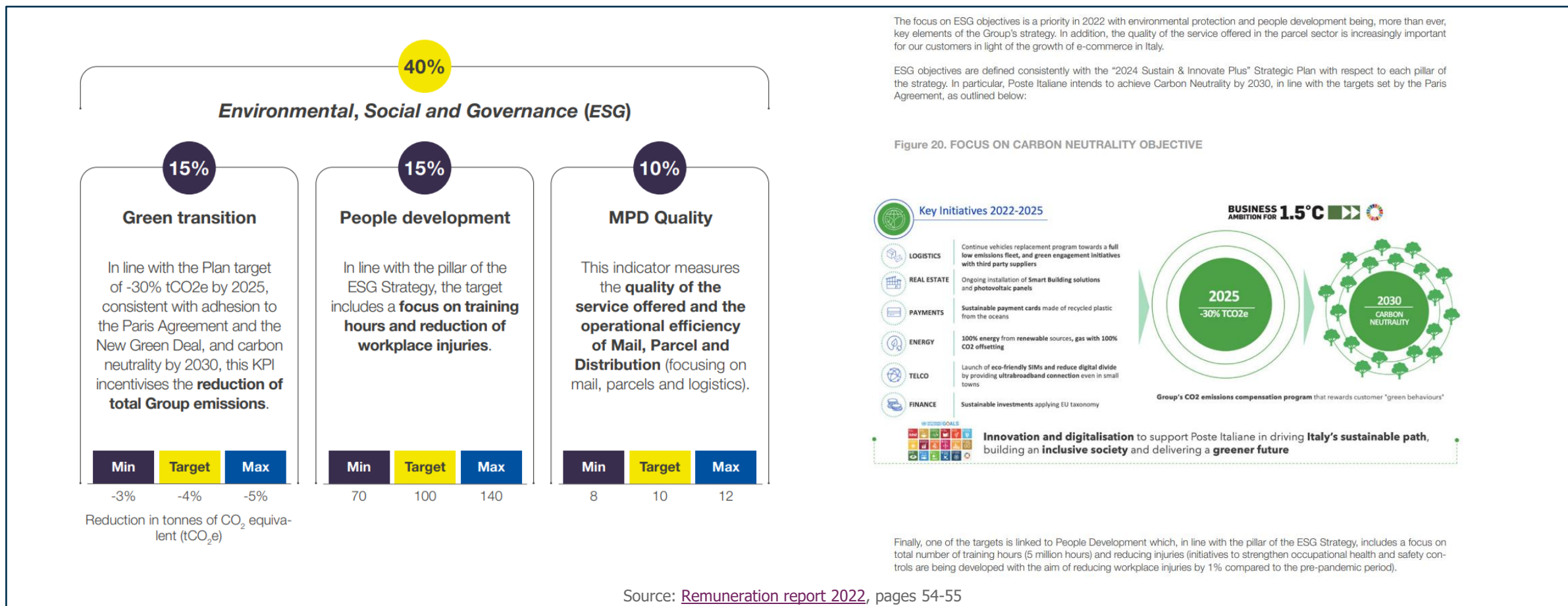
		Digital transformation and technological innovation	Repurposing and network extension	New growth opportunities	Insourcing of core skills	Solid and efficient financial structure	ESG	Value creation for stakeholders
Short-Term Incentive (STI)	PROFITABILITY (EBITDA)					▼		▼
	INVESTMENT (SPENDING)	▼	▼	▼	▼			
	NET FINANCIAL POSITION					▼		
	SUSTAINABILITY: • ACCIDENT FREQUENCY INDEX • GAS LEAKAGE RATE • ENERGY INTENSITY • DIVERSITY AND INCLUSION						▼	
Co-Investment	EBITDA					▼		▼
	CONSOLIDATED NET PROFIT					▼		▼
	RELATIVE TSR							▼
Long-Term Monetary Incentive (LTMI)	SUSTAINABILITY: • INCLUSION IN SUSTAINABILITY INDEXES AND RATINGS • REDUCTION OF EMISSIONS						▼	

Source: [Remuneration report 2022](#), pages 14-15

Environmental sustainability vs Remuneration structure

Posteitaliane

(Annual bonus)



Source: [Remuneration report 2022](#), pages 54-55

Environmental sustainability vs Remuneration structure

Prysmian Group (Annual bonus)

A portion of the annual incentive is linked to the achievement of an ESG objective that is common to all Group management. The ESG objective is measured through both internal performance indicators and Prysmian's positioning in two sustainability indices. The 2021 MBO Plan enhances the ESG target with the introduction of two further indicators focused on a reduction in CO₂ emissions and improving gender balance within the management. The assessment of the performance achieved is carried out by the Remuneration and Nomination Committee, with the prior favorable opinion of the Sustainability Committee.

KPI	Target Range	Weight
Frequency rate of injuries	1.22 - 1.19	30%
% women hired - Desk workers	35% - 38%	15%
% women hired - Management	35% - 38%	15%
Investment plan for CO ₂ emission reduction (GHG Scope 1 and 2)	8€M - 10€M with qualitative assessment on plan's deployment	20%
Positioning in sustainability indexes (CDP and DJSI)	Assessment based on result achieved and comparison vs 2020	20%

Source: [Remuneration report 2021](#), page 23

Environmental sustainability vs Remuneration structure



The objective concerning GHG Scope 1 grams emissions per kWh equivalent produced by the Enel Group will be measured on the basis of the performance scale set forth below (with linear interpolation). For performances under the target (whose measure coincides with the one indicated in the 2022-2024 Strategic Plan), no incentive will be awarded.

GHG Scope 1 emissions (data in $\text{gCO}_{2\text{eq}}/\text{kWh}_{\text{eq}}$) in 2024⁽²²⁾	Multiplier
GHG Scope 1 emissions equal to $140 \text{ gCO}_{2\text{eq}}/\text{kWh}_{\text{eq}}$	Target 130% ⁽²⁰⁾
GHG Scope 1 emissions equal to $137 \text{ gCO}_{2\text{eq}}/\text{kWh}_{\text{eq}}$	Over I 150%
GHG Scope 1 emissions lower than or equal to $135 \text{ gCO}_{2\text{eq}}/\text{kWh}_{\text{eq}}$	Over II 280% ⁽²¹⁾

It should be noted that the ESG component of the performance objectives has a total weight of 20% and therefore takes into account the growing attention of the financial community to these issues, with particular emphasis in this case on the fight against climate change and gender diversity. It should be noted that the performance objective linked to the fight against climate change is aimed at strengthening the link between the long-term variable remuneration and the 2022-2024 Strategic Plan, that promotes the implementation of a business model sustainable in the long period. The performance objective concerning the representation of women in the top management succession plans is aimed at supporting women's growth at top managerial levels, ensuring a fair representation of gender in the bases supplying these plans.

Source: [Remuneration report 2022](#), pages 26-27

Environmental sustainability vs Remuneration structure



2022 OBJECTIVES RELATING TO 2022 STI PLAN

ENTRY
GATE

1. ADJUSTED NET FINANCIAL POSITION AS AT DECEMBER 31, 2022
2. TOTAL RECORDABLE INJURY FREQUENCY RATE (TRIFR) AS AT DECEMBER 31, 2022



FINANCIAL OBJECTIVES

Adjusted EBITDA ⁽¹⁾
(weight 35%)
Adjusted Free Cash Flow ⁽¹⁾
(weight 30%)



ESG OBJECTIVES

Reduction of GHG emissions ⁽²⁾
(weight 5%)
Anti-corruption and 231 training
(weight 5%)



STRATEGIC OBJECTIVES

Backlog Progress
(weight 15%)
New contracts
(weight 10%)

(1) The adjustments relate to non-recurring charges, used in Saipem's market communications, and mainly comprise: redundancy, tax litigation and arbitration disputes.

(2) GHG emission reduction refers to the emissions (measured in terms of tonnes of CO₂) avoided related to Scope 1 and Scope 2 in the Group's scope:

- Scope 1: direct emissions from operations under the direct control of Saipem;
- Scope 2 includes indirect emissions produced by purchased electrical energy.

Source: [Remuneration report 2022](#), page 27

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