

# Best Practice Guide

To complement Planet Tracker's analysis of the compensation structure of 39 plastic related companies – see '[Plastics – Executive Compensation](#)' – the following are indicators of best practice:

## Performance-linked pay should be material

Some corporates implement a 10% portion of a cash pay-out which accounts for 20% of total remuneration, which is an effective 2% pay for performance. Planet Tracker believes a meaningful percentage of compensation (10%+) based on sustainability deliverables is the minimum requirement.

## Independently verified targets and results

Independently verified targets on sustainability protect against greenwashing and allow comparisons between companies. For example, the Science Based Targets initiative (SBTi) requires firms to set independently verified targets for emissions reduction and report on these in a set format. However, having agreed a SBT metric, management needs to adhere to the target – i.e., simply having an SBT is not a climate transition plan.

## Use quantitative targets where possible

Financial performance accounts for most of the compensation and typically links to clearly defined quantitative targets, for instance profit margin, earnings growth, free cash flow generation, return on capital etc. Sustainability targets should align with this quantitative approach

## Targets for sustainability rewards should be annual as well as longer term

There is a tendency for sustainability awards to use longer-term direction-of-travel targets, i.e., evidence that things are improving towards a medium-term goal. We believe annual (cash) awards need annual sustainability targets not just vague indications of travel.

## Independent payment triggers

Financial targets often trump sustainability ones making the latter potentially obsolete, for instance, when a profitability target must be achieved before any sustainability-linked targets are considered. Sustainability delivery needs independent rewards.

## Clear disclosure

Transparency of what has and hasn't been achieved. Direction-of-travel and qualitative targets can be used to achieve opaqueness. Clear deliverables are desirable.

## A Case Study - Scoring Danone

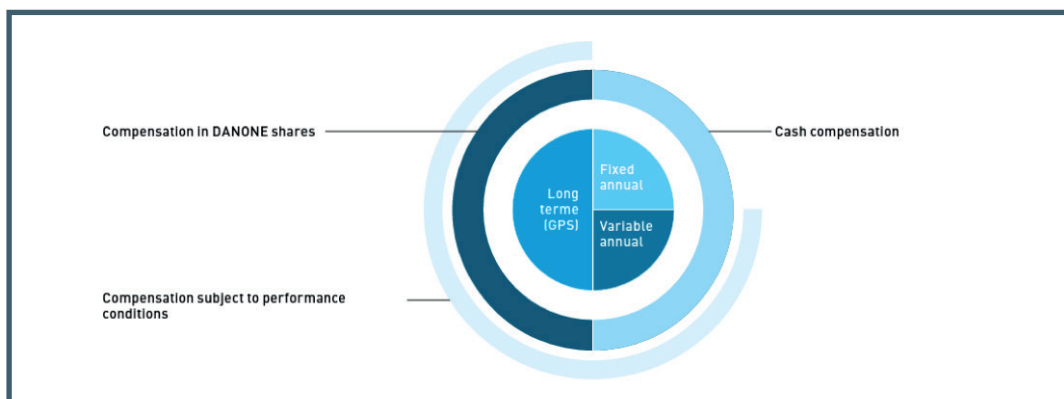
Danone is a leader among plastic-related companies in linking executive compensation to environmental factors. A combination of short- and long-term incentives are used, with a bias to the latter, on a multi-year basis. Environmental metrics such as defined GhG reductions (SBTi approved) and B-Corp sales are used. Financial metrics do not overwhelm sustainability measures making the latter irrelevant.

### The short-term and long-term mix

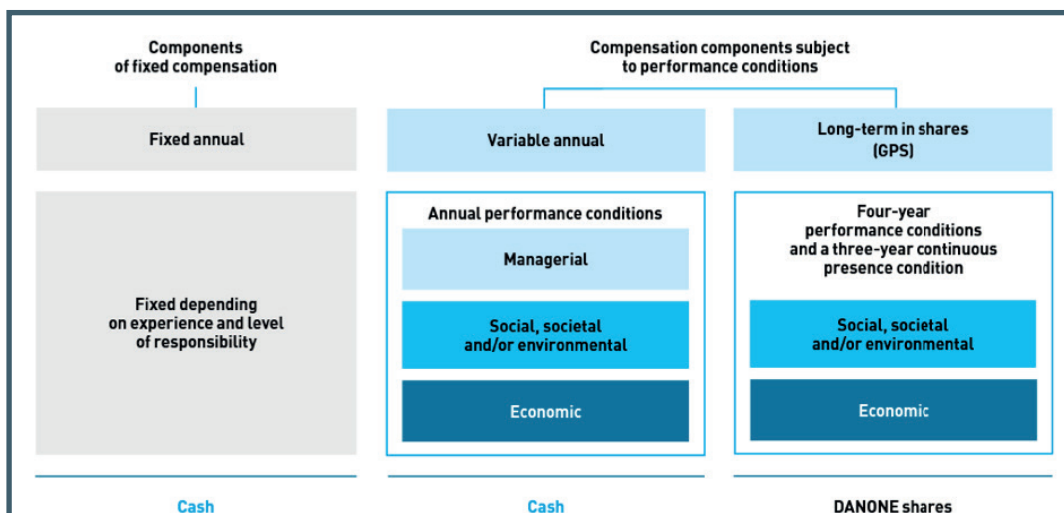
Like many companies in the Planet Tracker plastic universe, Danone has a mix of a short-term incentive (STI) plan and long term incentive (LTI) plan with multi-year vesting. It has an atypical higher weighting towards the LTI plan - see Figure 1.

Management is discussing with shareholders how executive compensation should evolve. Planet Tracker has identified Danone, which scores “A1” on structure and materiality, as an example of best practice among the 39 listed plastic companies we analysed in ‘Plastic – Executive Compensation’. Danone is one of only two companies to rank highly on Planet Tracker’s structure and materiality metrics (the other is Ahold Delhaize). Below we highlight some of the key features of the company’s remuneration policy using images provided from the company’s Universal Registration document.<sup>i</sup>

When it comes to the performance based elements, both the short-term “variable annual” component and the long-term Group Performance Shares (“GPS”) have, as illustrated in Figure 2, a link to environmental levers.



**Figure 1:** Danone target remuneration mix (Source: Danone)



**Figure 2:** Danone compensation structure summary (Source: Danone)

<sup>i</sup> Danone: <https://www.danone.com/content/dam/danone-corp/danone-com/investors/en-all-publications/2022/registrationdocuments/danoneurd2022eng.pdf>

## Short term variables

Short-term "variable annual". For 2023, the variable annual performance conditions include a 10% weighting for reduction in Scope 1-3 greenhouse gas emissions - see Figure 3.

The only "disappointing" element in Danone's structure is that the actual quantitative criteria, while "precisely defined", are not made public for confidentiality reasons, in accordance with French Financial Market Authority recommendation.

The performance criteria for the annual variable compensation for the year 2023 will be as follows:

	Performance indicators	Proportion of the target amount	Variation based on the weighting
<b>Economic criteria (quantitative)</b>	Like-for-like sales growth	15%	0 to 30%
	Recurring operating margin level	15%	0 to 30%
	Free cash flow generation	15%	0 to 30%
	Change in volume/ like-for-like sales mix	15%	0 to 30%
	<b>TOTAL</b>	<b>60%</b>	<b>0 to 120%</b>
<b>Social, societal and/or environmental criteria (quantitative)</b>	Reduction in greenhouse gas emissions across the entire value chain (scopes 1, 2 and 3) in 2023 vs 2022	10%	0 to 20%
	Percentage of Danone's 2023 sales covered by B-Corp certification	10%	0 to 20%
	<b>TOTAL</b>	<b>20%</b>	<b>0 to 40%</b>
<b>Managerial criteria (qualitative)</b>	Managerial objective	20%	0 to 40%
	<b>TOTAL</b>	<b>20%</b>	<b>0 to 40%</b>
<b>TOTAL</b>		<b>100%</b>	<b>0 to 200%</b>

Figure 4 - Danone long-term GPS environmental component detail (Source: Danone)

## Long term Group Performance Shares

The latest tranche covers the period 2023-25. The nature component, which accounts for 10% of the total long-term compensation, is also based on scope 1-3 GhG emissions reduction relative to a 2022 base. As shown in Figure 4, Danone’s long-term GPS environmental component details, and the targets and associated thresholds required for varying levels of pay out are clearly disclosed.

### Materiality

short-term compensation accounts for 25% of target compensation and long-term a further 50%, the net

result of 20% of short-term and 10% of long-term variable compensation being linked to sustainability criteria is an overall link  $(25\% \times 20\% + 50\% \times 10\% = 5\% + 5\%) = 10\%$ .

### Work in progress

Willingness to change – Planet Tracker notes that executive remuneration is an evolving process. In Danone’s own words: “In 2023, following the dialogue with shareholders, the Company wished to evolve the environmental criterion by creating three internal social and environmental criteria (Health, Nature and People), directly linked to Danone’s medium-term strategy and objectives, particularly its *Entreprise à Mission* status”.

## 2- Nature (condition weighted by 10%)

### PRINCIPLE

Reduction (as a percentage), on a comparable scope and methodology, in greenhouse gas emissions across Danone’s entire value chain (scopes 1, 2 and 3) in 2025 vs. 2022 emissions

- 0% of the performance shares granted if this reduction is strictly less than 8%;
- 5% of the performance shares granted if this reduction is equal to 8%;
- between 5% and 10% of the performance shares granted if this reduction is between 8% and 9.5%, based on a linear progressive scale;
- 10% of the performance shares granted if this reduction is greater than or equal to 9.5%.

### DEFINITIONS

Greenhouse gas (GHG) emissions across Danone’s entire value chain (scopes 1, 2 and 3)

Danone’s greenhouse gas (GHG) emissions in all three categories (scopes 1, 2 and 3), within the scope of its confirmed 1.5°C Science Based Targets (“SBT Scope”), as defined in the methodology note in the section of the Universal Registration Document entitled Social, Societal and Environmental Responsibility.

### OTHER APPLICABLE RULES

Significant change

In case of a significant change in the consolidation scope or in the methods used to calculate greenhouse gas emissions, Danone will apply the recalculation rules defined by the GHG Protocol and the Science Based Targets Initiative. This performance condition will therefore be assessed for the “SBT Scope” applicable in 2025. In case of a significant regulatory change or any other external event significantly impacting this condition, the Board of Directors will decide, where applicable, which other social or environmental performance condition(s) (health and/or people) will apply, in whole or in part, instead of this condition.

### ASSESSMENT OF ACHIEVEMENT OF THE PERFORMANCE CONDITION

The Board of Directors’ procedure for determining that this performance condition has been met

The Board of Directors must determine the level of achievement of this performance condition, through a duly justified decision indicated in the Universal Registration Document, following the recommendation of the Nomination, Compensation and Governance Committee.

Date of assessment of achievement of the performance condition

Early 2026.

**Figure 3:** Danone annual variable performance criteria for 2023 (Source: Danone)