

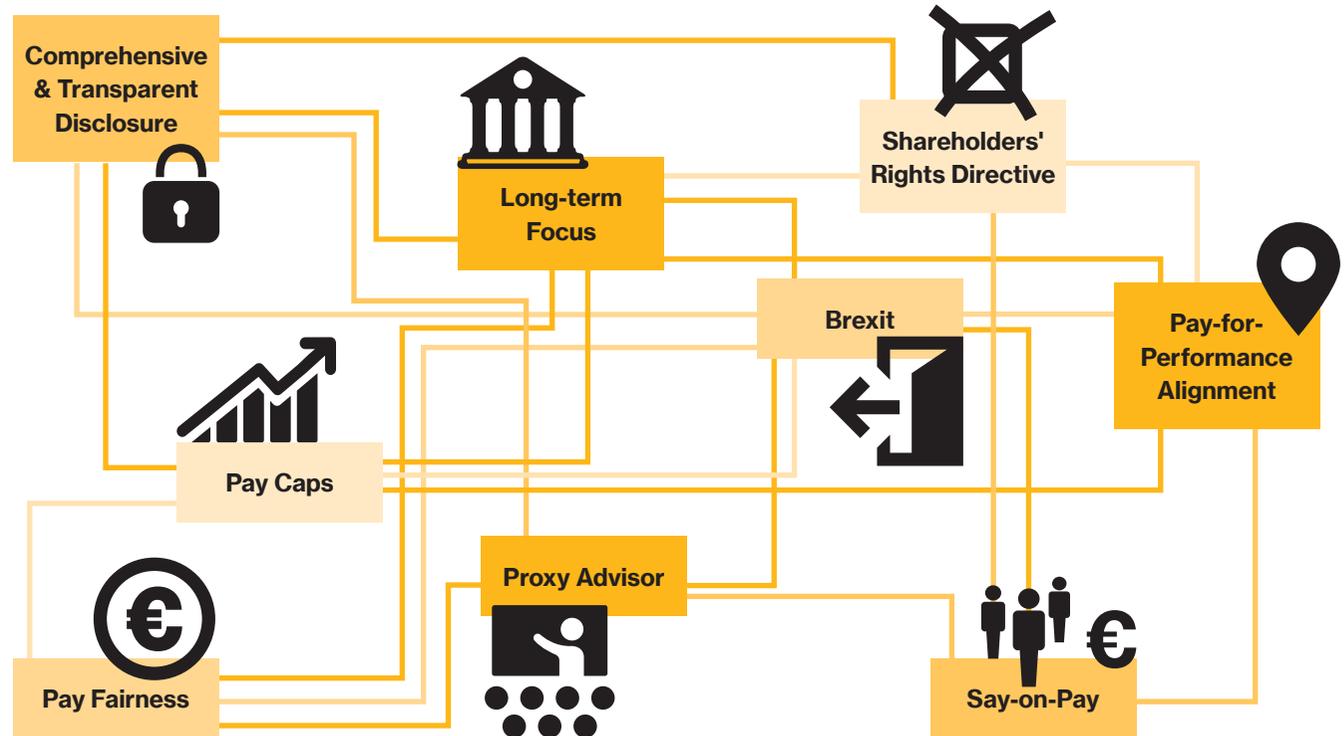
Shareholders' Rights Directive

An overview of implications and expected
impact in selected countries

Autumn 2017

Regulatory Developments Across Europe

- While there are a number of longstanding external factors shaping the executive compensation landscape, the Shareholders' Rights Directive (SRD) will potentially drive some significant changes throughout Europe through new disclosure requirements and increasing the influence of shareholders and proxy advisors.
- We are also seeing an increasing focus on pay fairness, which has largely been driven by public and political opinion. In this context, the discussion is not only focused on CEO-to-worker pay ratios, but also on gender pay reporting and boards taking into consideration the views and interests of employees.



Strict regulation on executive pay. New requirements recently announced include disclosure of pay ratios, strengthened consideration of employee views, publication of a list of companies who achieve <80% vote on pay resolutions. Corporate governance code to be revised, and a new code established for private companies.

Financial Services: 20% variable pay caps; General Industry: cap on LTI proceeds in CIC. New corporate governance code with a focus on simplification and disclosure of internal pay relativities.

Binding vote on policy and variable pay (no change). No notable revisions to corporate governance code or increased disclosure in recent years.

Recommended binding vote on policy and binding vote on incentive-based pay (no change). A trend towards more pay transparency and simplicity.

Changes on disclosure, companies to define individual pay limits, women on boards, long-term variable pay shall be essentially forward-looking.

New regulation introducing binding Say-on-Pay vote every year on both the policy (from 2017) and the elements granted (from 2018); Women on boards regulation.

Cap on CEO pay for state-owned companies. Financial Services: 50% variable pay cap. Revised company law and corporate governance code expected.

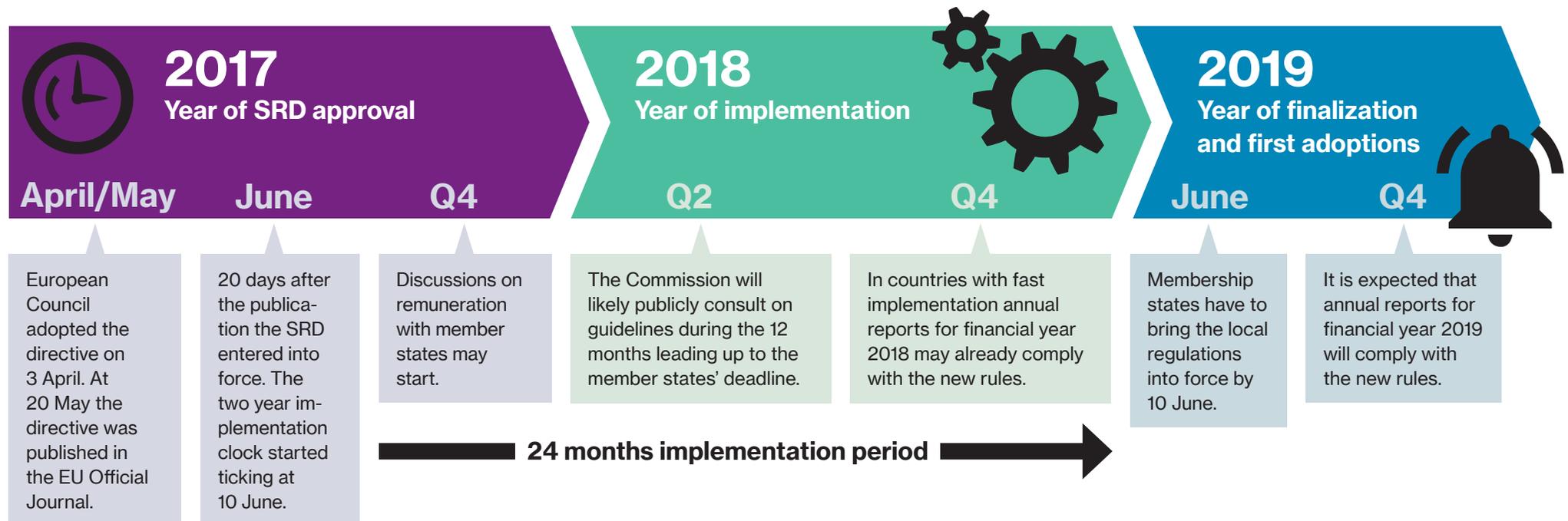
Pay practice restrictions; binding votes on fixed and variable pay.

Binding vote on policy, advisory vote on remuneration report, very high compliance rates on corporate governance code standards.

Increasing pressure from regulators to obtain more detailed disclosure – stock exchange asking for improvement in 2017.

Shareholders' Rights Directive (SRD)

- The SRD is a binding regulation that will cover all companies registered and listed in a EU member state.
- The focus of the revised SRD is to strengthen shareholders' engagement in large European companies, to create a better link between pay and performance and to increase transparency.
- The financial crisis revealed that shareholders in many cases supported managers' excessive short-term risk taking. The SRD is intended to address this issue and contribute to the sustainability of companies, which will result in growth and job creation.



Implications of the SRD for Executive Remuneration

| Remuneration Policy | Remuneration Report |
|---|---|
| <ul style="list-style-type: none"> ▪ Will be subject to a binding vote at least every fourth year, or if any material changes emerge ▪ Member states could decide to keep the vote advisory ▪ Shall clearly explain how it contributes to the business strategy, long-term interests and sustainability ▪ Any payments made to directors must be in accordance with the approved policy ▪ Application of the policy in exceptional circumstances must be specified ▪ Shall describe the different remuneration elements and their relative weight ▪ Must in detail describe a varied set of KPIs for variable remuneration, and how KPIs are measured ▪ Shall specify information on clawback possibilities and deferral periods ▪ Must, for all share-based remuneration, specify how it contributes to fulfill the policy objectives ▪ Vesting periods as well as retention rules should be defined ▪ Indicates main terms of contracts, or arrangements, with directors | <ul style="list-style-type: none"> ▪ Shall be subject to an annual advisory vote* at the AGM. Consideration of the outcome should be included in next year's report ▪ Shall provide a detailed and clear overview of individual directors' remuneration in the last financial year ▪ Both new hires and leavers are to be included ▪ Shall provide the following information for each director: <ul style="list-style-type: none"> ▪ Total remuneration and mix of fixed and variable constituents ▪ Details on how the pay structure comply with the policy and how performance criteria were applied ▪ Five financial years development of: Annual director remuneration changes, average other employee (FTE) remuneration changes and company performance ▪ Main conditions for any granted share-based remuneration (including amount, timeframes and, if applied, exercise price & rights) ▪ Information on clawback possibilities ▪ Will help shareholders assess the link between pay and performance ▪ Any deviations from the policy should be addressed and explained ▪ Minimum standardization requirements regarding format to be outlined by a set of guidelines specified by the Commission |

* For small- and medium-sized companies, member states may provide the alternative of a discussion at the AGM rather than a vote.

Current Disclosure Practice and Impact of SRD

The current disclosure practices show that the impact of the SRD will vary by country, but the need for enhancements exists generally throughout Europe. The UK disclosures won't be impacted by the directive, as they are already close to SRD requirements.

| Country | Current Disclosure Practice | | | | | Impact of SRD on disclosure practices |
|-------------|---|--|--|---|--|---------------------------------------|
| | Individual disclosure of executive director pay | Remuneration report / standardized tables | Information disclosed for current financial year (FY) and forward looking (FL) | Target achievement rate / description of achieved performance | Detailed description of incentive schemes | |
| Belgium | CEO only | Structured report, but no standardized tables | Remuneration paid for FY and proposed policy changes for next 3 years | Rarely disclosed | Usually quite detailed | High |
| Denmark | Some companies disclose individually | No formal remuneration report structure and no standardized tables | Remuneration paid for FY, no forward looking information | Sometimes disclosed | Usually not very detailed | High |
| France | Sometimes CEO only, due to board structure | Standardized report and tables for remuneration paid | Remuneration paid for FY and policy for next year | Sometimes disclosed in full detail | Usually quite detailed | Low |
| Germany | ✓ | Standardized tables for granted and paid remuneration | Remuneration paid for FY and sometimes proposed policy changes for next year | Rarely disclosed | Usually quite detailed | Medium |
| Netherlands | ✓ | Structured report, but no standardized tables | Remuneration paid for FY and sometimes proposed policy changes for next year | Pressure for improvement | Usually quite detailed | Low |
| Italy | ✓ | Structured report and standardized-pay tables, although definition of pay elements not always clear | Remuneration paid for FY and proposed policy or implementation changes for next year | Rarely disclosed | Usually detailed but with room for improvement | Medium |
| Spain | Sometimes CEO only, due to board structure | Structured report and standardized tables | Remuneration paid for FY and proposed policy changes for next year | Rarely disclosed | Usually quite detailed | Medium |
| Sweden | CEO only | No formal remuneration report structure and no standardized tables | Remuneration paid and policy for FY and policy for next year (in AGM notice) | Sometimes disclosed | Usually not very detailed | High |
| Switzerland | Highest paid only | No formal remuneration report structure and no standardized tables | Remuneration paid for FY and sometimes proposed policy changes for next year | Sometimes disclosed | Usually quite detailed with room for improvement | Low |
| UK | ✓ | Standardized pay table (single figure) with defined elements. Remuneration report is fairly structured | Remuneration paid for FY and proposed policy or implementation changes for next year | Usually good / full disclosure | Usually quite detailed | Very close to SRD |

Impact on Say-on-Pay and Influence of Proxy Advisors

Say-on-Pay votes are not yet best practice in all European countries and influence of proxy advisors like ISS differs. In general a relation between ISS recommendations and approval rates can be observed, however, sometimes the remuneration system or the report might actually be of poor quality. The following analysis is based on companies listed in the respective top index for which a Say-on-Pay vote has been conducted.

| Country | Current Say-on-Pay practice | | Influence of proxy advisors | ISS Recommendation FOR | | ISS Recommendation AGAINST | |
|-------------|--|--|-----------------------------|------------------------|--|----------------------------|--|
| | Binding Vote | Advisory Vote | | Number | Average approval rate | Number | Average approval rate |
| Belgium | – | Annual vote on remuneration report each year (not on remuneration policy specifically) | High | 7 |  93 % | 10 |  75 % |
| Denmark | Non-annual binding vote on incentive-based pay (introduction and amendments) | Recommended vote on policy (introduction and amendments) | Low | 16 | ND | 1 | ND |
| France | Annual on policy (2017) and remuneration paid (2018) | On remuneration paid until 2017 (former regulation, applicable last time in 2017) | High | 25 |  88 % | 10 |  74 % |
| Germany | – | On shareholder request on remuneration policy (usually proactively in case of policy change) | Medium | 2 |  89 % | 6 |  59 % |
| Netherlands | Introduction of new policy and significant changes of the existing policy | No advisory vote yet. However, the implementation of the remuneration policy is a discussion item at the AGM | Low | 4 |  92 % | 0 | NA |
| Italy | For banks – annual on policy and remuneration paid | For listed companies excluding banks – annual on remuneration policy | Medium | 14 |  95 % | 12 |  77 % |
| Spain | Policy every three years | Annual on remuneration paid | Medium | 23 |  90 % | 11 |  72 % |
| Sweden | Annual on policy and on any share-related LTI plans | – | Low | 19 | ND | 10 | ND |
| Switzerland | Annual on aggregate compensation of Executive Committee | Best practice: advisory vote on compensation report, but no obligation to do so | Low | 21 |  88 % | 4 |  70 % |
| UK | Policy every three years | Annual on implementation/remuneration paid (proposal to make binding) | High | 89 |  93 % | 5 |  55 % |

Key Takeaways Based on Experience with UK Reporting Regulations

- Although the implementation clock just started ticking, everyone should be prepared and plan early to cope with new requirements as the directive will lead to:
 - Enhanced explanation of Pay-for-Performance processes
 - Development of new remuneration report structures
 - Preparation of detailed discussions in remuneration committees and supervisory board
 - Proactive communication with proxy advisors and institutional investors

**So, maybe you
want to consider the
following tips:**

- Plan early
- Engage all stakeholders in good time (HR, reward, finance, audit, cosec, legal, board)
- Engage shareholders and proxy advisors in good time
- Be prepared for changes during the drafting process
- It is an opportunity to improve communication and transparency. However, use caution regarding voluntary disclosures
- Don't bury bad news
- Align your policy with share plan rules, service contracts, board meeting minutes, remember grandfathering clauses



Executive Compensation Consulting Services

As the world's largest executive compensation consultancy, Willis Towers Watson works with boards of directors, compensation committees and management to help organizations get executive pay right.

Willis Towers Watson serves as a best-in-class provider of practical advice, data resources and technical information to help clients develop and administer "best fit" compensation programs in the context of each organization's business and reward strategy. We provide consulting services and customized information, including information and insights that may not otherwise be available through public disclosures and generic surveys. We work collaboratively with management (both at headquarters and business units), boards of directors and compensation committees.

Legislation, regulations and the evolution of corporate governance have, in many cases, changed the executive compensation landscape and working relationships among management, the compensation committee and outside compensation advisors. We understand that there is no single model that works for every organization.

In light of each organization's governance requirements and preferences, we can help define the right relationship structure to put the Willis Towers Watson difference to work for you.



The Willis Towers Watson difference

We've conducted extensive research to understand organizations' executive compensation consulting needs, preferences and concerns in light of recent regulatory developments. We found that each company approaches the design and governance of executive compensation programs in its own way. This is consistent with our philosophy that executive compensation should meet a tailored, "best fit" standard. Our research has also identified the capabilities that organizations most value.

| What Willis Towers Watson offers | How our clients benefit |
|---|---|
| Depth of resources and expertise available only from the world's largest executive compensation consulting practice | Our 400 executive compensation consultants in more than 35 cities worldwide offer responsiveness and experience across industry sectors, public and private companies, and the nonprofit sector. Our clients include organizations large and small, and our executive compensation consultants have deep expertise in a wide range of industry sectors, including financial services, natural resources, energy, pharma/biopharma, media, health care and retail. Our consulting teams staff client programs thoughtfully to leverage our collective experience for each client's benefit and ensure we are available when clients need us. |
| Dedicated in-house experts on legislative and regulatory requirements, tax and accounting issues, proxy advisor policies, disclosure rules and other key considerations | Our clients receive frequent updates on the latest developments and trends, and can easily tap our experts for answers on the full range of questions that executive pay programs pose. |
| Unparalleled compensation databases and a dedicated research function offering clients the most extensive research capabilities in our industry | Willis Towers Watson conducts proprietary compensation surveys in over 115 countries and offers the world's largest database of current information on executive pay levels, and long- and short-term incentives. This wealth of pay data, including custom analyses, is online 24/7. In addition, our Executive Compensation Resources (ECR) unit conducts ongoing data gathering, research and analysis of executive pay data disclosed in company proxy statements and related disclosures in key countries where robust pay disclosure is required. |
| Objectivity, quality assurance and data protection | Our technical capabilities and best-in-class quality assurance processes ensure sound advice. And whether we are retained by the board's compensation committee or by management, our extensive consulting protocols help ensure that our executive compensation clients receive fully independent, objective advice. |
| The ability to leverage Willis Towers Watson's broader resources to generate integrated solutions to complex business issues | Willis Towers Watson's 39,000 employees in more than 120 countries worldwide offer a broad range of expertise to help clients improve performance through effective people, risk and financial management. Our research confirms that many clients value our ability to bring a multidisciplinary approach to the complex challenges they face. |
| Innovative thinking and cutting-edge approaches to clients' problems | Our size and extensive resources enable Willis Towers Watson to make significant investments in our clients, including investments in new tools and approaches to meet emerging client needs. |
| A truly global reach – consultants on the ground in key countries worldwide supported by research and data covering the world's top markets | Multinational clients look to us for help dealing with the challenges of managing a mobile and geographically diverse cadre of executives. We also help these organizations craft talent and reward strategies to enhance value beyond their headquarters and throughout their global operations. This includes important emerging markets such as Brazil, China and India. |

Willis Towers Watson's contacts

We provide governance advice and implementation support to guide you through all of the stages of SRD implementation. Our paralleled depth of resources and regional expertise means you will work with a partner who will get it right. Contact us today.

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