Triodos Investment Management

VERIZON COMMUNICATIONS INC

MEETING DATE	Thu, 03 May 2018 8:30 am	TYPE AGM	ISSUE DATE Thu, 19 Apr 2018
MEETING LOCATION	Hyatt Regency Lake Washington at , Seattle's Southport , 1053 Lake Washington Boulevard North , Renton, Washington 98056		
CURRENT INDICES	S&P500		
SECTOR	Telephone communications, except radiotelephone		

	PROPOSALS	ADVICE
1.1	**Elect Director Shellye L. Archambeau** Independent Non-Executive Director.	**For**
1.2	**Elect Director Mark T. Bertolini** Independent Non-Executive Director.	**For**
1.3	**Elect Director Richard L. Carrion** Non-Executive Director. Not considered independent owing to a tenure of over nine years. However, there is sufficient independent representation on the Board.	**For**
1.4	**Elect Director Melanie L. Healey** Independent Non-Executive Director.	**For**
1.5	**Elect Director M. Frances Keeth** Lead Director. Not considered independent owing to a tenure of over nine years. However, there is sufficient independent representation on the Board.	**For**
1.6	**Elect Director Lowell C. McAdam** Chairman and CEO. Combined roles at the head of the Company. There should be a clear division of responsibilities at the head of the Company between the running of the board and the executive responsibility for the running of the Company's business. No one individual should have unfettered powers of decision. Combining the two roles in one person represents a concentration of power that is potentially detrimental to board balance, effective debate, and board appraisal.	**Oppose**
1.7	**Elect Director Clarence Otis, Jr.** Non-Executive Director. Not considered independent owing to a tenure of over nine years. However, there is sufficient independent representation on the Board. He is chair of the Remuneration committee which is not fully independent which Triodos does not support.	**Oppose**
1.8	**Elect Director Rodney E. Slater** Independent Non-Executive Director.	**For**
1.9	**Elect Director Kathryn A. Tesija** Independent Non-Executive Director.	**For**
1.10	**Elect Director Gregory D. Wasson** Independent Non-Executive Director.	**For**
1.11	**Elect Director Gregory G. Weaver** Independent Non-Executive Director. He is chair of the Audit committee which is not fully independent which Triodos does not support.	**Oppose**
2	**Ratify Ernst & Young as Auditors** EY proposed. Non-audit fees represented 10.46% of audit fees during the year under review and 12.29% on a three-year aggregate basis. This level of non-audit fees does not raise serious concerns about the independence of the statutory auditor. The current auditor has been in place for more than seven years. There are concerns that failure to regularly rotate the audit firm can compromise the independence of the auditor.	**Oppose**

3 Advisory Vote to Ratify Named Executive Officers' Compensation **Oppose**

The Company has submitted a proposal for shareholder ratification of its executive compensation policy and practices. The voting outcome for this resolution reflects the balance of opinion on the adequacy of disclosure, the balance of performance and reward and the terms of executive employment.

For fiscal 2017, annual cash awards were excessive. Awarded pay for the CEO is aligned with companies of a similar market capitalization. However, rewarded executive compensation is above peer group averages. The CEO's maximum opportunity exceeds 200% of his base salary which is not considered best practice. In addition, his 2017 long-term plan target award opportunity was set at 750% of base salary which is excessive. The Company granted RSUs with no performance conditions.

The compensation rating is: CDC. Based on this rating, Triodos opposes this resolution.

4 Shareholder Resolution: Amend Bylaws – Call Special Meetings **For**

Proposed by: Kenneth Steiner.

The Proponent requests that the Board amend the Company's bylaws and each appropriate governing document to give holders in the aggregate of 10% of the Company's outstanding common stock the power to call a special shareholder meeting.

Proponent's Supporting Argument: The Proponent argues that special meetings allow shareholders to vote on important matters, such as electing new directors that can arise between annual meetings. The Proponent argues that this proposal is particularly important because shareholders do not have the opportunity to act by written consent and that now is a good time to adopt this proposal topic since the Company's stock price has been dead money since late 2016.

Board's Opposing Argument: The Board recommends shareholders oppose and argues that under the Company's bylaws, any individual shareholder who owns at least 10%, or multiple shareholders who together own at least 25%, of the Company's stock may call a special meeting of shareholders. The Board believes that special meetings should be extraordinary events that occur only when an individual shareholder, or group of shareholders, with a substantial percentage of shares agrees there are extremely pressing matters that must be addressed before the next annual meeting.

PIRC Analysis: The right to call a special shareholder meeting provides shareholders with a way of communicating with the Board and debating and voting on issues with the rest of shareholders, which in itself enhances shareholders' rights. The threshold recommended by the Proponent is considered acceptable.

Triodos supports this resolution.

5 Shareholder Resolution: Report on Lobbying Payments and Policy **For**

Proposed by: Boston Common U.S. Equity Fund.

The Proponent requests that the Board provides full disclosure on Verizon Communication Inc.'s direct and indirect lobbying activities and expenditures to assess whether Verizon's lobbying is consistent with its expressed goals and in the best interests of shareholders.

Proponent's Supporting Argument: The Proponent argues that Verizon has spent over $100 million on federal lobbying (opensecrets.org). This figure does not include lobbying expenditures to influence legislation in states, where Verizon also lobbies in all 50 states ("Amid Federal Gridlock, Lobbying Rises in the States," Center for Public Integrity, February 11, 2016), but disclosure is uneven or absent. In addition, Verizon does not disclose its memberships in, or payments to, trade associations, or the amounts used for lobbying.

Board's Opposing Argument: The Board is against this proposal as Verizon fully complies with the disclosure obligations imposed by the federal, state and local laws relating to its lobbying activities. At the federal level, Verizon files public quarterly reports disclosing its lobbying expenditures and detailing its lobbying activities, the entities it lobbied and the subject matters upon which it lobbied. Verizon participates in a number of trade associations, which not only provide valuable industry and market expertise, but also advocate positions on behalf of their members.

PIRC Analysis: The Board has not shown that the Company's existing disclosure addresses the concerns and information requested by the Proponent. The sums referred to by the Proponent are significant, and thorough disclosure with respect to how shareholders' funds are used to further political or legislative objectives is welcomed. It is noted that in terms of disclosure surrounding political donations, the Company appears in the second tier of the CPA-Zicklin Index.

Triodos supports this resolution.

6 Shareholder Resolution: Require Independent Board Chairman **For**

Proposed by: AFL-CIO Reserve Fund.

The Proponent asks that the Board take the steps necessary to adopt a policy to require that the Chairman of the Board shall be an independent director who has not previously served as an executive officer of the Company.

Proponent's Supporting Argument: The Proponent argues that the combination of these two roles in a single person weakens a corporation's governance, which can harm shareholder value. The Proponent also believes that the Chairman should be an independent director, who has not previously served as an executive, in order to provide robust oversight and accountability of management, and to facilitate effective deliberation of corporate strategy,.

Board's Opposing Argument: The Board is against this proposal as they believe that decisions concerning its leadership structure, including whether an independent Chairman is appropriate, should be based on the unique circumstances and challenges confronting Verizon at any given time, and should take into account the individual skills and experience that may be required in an effective Chairman at that time. The Board leadership includes a strong independent Lead Director who shares governance responsibilities with the Chairman, ensuring forthright communication, effective independent oversight of management's performance and accountability to shareholders.

PIRC Analysis: There should be a clear division of responsibilities at the head of the Company between the running of the board and the executive responsibility for the running of the Company's business. No one individual should have unfettered powers of decision. Combining the two roles in one person represents a concentration of power that is potentially detrimental to board balance, effective debate, and board appraisal.

Triodos supports this resolution.

7 **Shareholder Resolution: Assess Feasibility of Cyber Security and Data Privacy as a Performance Measure for Senior Executive Compensation** **For**

Proposed by: The Park Foundation, Inc.

The Proponent requests that the appropriate board committee publish a report assessing the feasibility of integrating cyber security and data privacy metrics into the performance measures of senior executives under the company's compensation incentive plans.

Proponent's Supporting Argument: The Proponent argues that currently, Verizon links senior executive compensation to diversity metrics and carbon intensity metrics. Cyber security and data privacy are vitally important issues for Verizon and should be integrated as appropriate into senior executive compensation as we believe it would incentivize leadership to reduce needless risk, enhance financial performance, and increase accountability. The Proponent has claimed that while Verizon has made several policy commitments regarding data privacy and data security, there is significant evidence that Verizon has not been successful at implementing those commitments and/or faces significant challenges to doing so. In 2016, Fortune reported that "Verizon's division that helps Fortune 500 companies respond to data breaches, suffered a data breach of its own ... [including] information on some 1.5 million customers of Verizon Enterprise." In October 2017, it was announced that all 3 billion accounts in subsidiary Yahoo had been breached prior to its acquisition by Verizon. With its acquisition of AOL and Yahoo and the combination of these firms into a new digital media and advertising company called Oath, Verizon now reportedly aims in coming years to double its advertising reach to 2 billion people in Latin America, Asia and Europe. CNBC reported that Oath is "working with third parties to provide more transparency in telling marketers where their ads are running." This will require sharing information and will depend on the security and policies of vendors and other third-party partners.

Board's Opposing Argument: The Board is against this proposal as the Board does not think that the proposed performance metrics for senior executive compensation would have the presumed effect of preventing a network or data security breach. The Board believes that there is not necessarily a correlation between a senior executive's actions and the prevention of cyber or data security incidents. In addition, the Board believes that the proposal incorrectly suggests that cybersecurity and data privacy performance metrics are analogous to the diversity and carbon abatement performance metrics that Verizon uses in its short-term incentive awards. Verizon has a dedicated Chief Information Security Officer whose team is responsible for leading enterprise-wide information security strategy, policy, standards, architecture and processes.

PIRC Analysis: In 2016, the breach suffered by the Company, whilst considered a reasonable concern, did not have a significant adverse effect upon the share price. There is, however, merit in the Proponent's proposal. While it is difficult to assess a viable performance metric that quantifies an executive officer's performance in cyber security and data privacy matters, given the importance of this issue to investors, a report on the feasibility of such measures would be of benefit to investors.

8 Shareholder Resolution: Clawback of Incentive Payments **For**

Proposed by: Jack K. & Ilene Cohen.

The Proponents request that the Board amend the Company's compensation claw back policy, as applied to senior executive officers, to provide that the Human Resources Committee will review and determine whether to seek recoupment of incentive compensation paid, granted or awarded to a senior executive officer if, in the Committee's judgment, there has been conduct resulting in a violation of law, regulation or Company policy that causes significant financial or reputational harm to the Company, and a senior executive either engaged in the conduct or failed in his or her responsibility to manage or monitor conduct or risks, with the Company to disclose to shareholders the circumstances of any recoupment and of any decision not to pursue recoupment.

Proponent's Supporting Argument: The Proponents argue that a claw back policy limited to "willful misconduct" is too narrow and believe that recoupment is an important remedy for other conduct that does not cause a restatement of financial results, but may harm the Company's reputation and prospects in addition to any financial penalties or loss. Also, the Proponents argue that recent high-profile regulatory fines paid by the Company underscore the need for a stronger policy.

Board's Opposing Argument: The Board recommends shareholders oppose and argues that the Company's existing claw back policies sufficiently address the objectives of the proposal because they empower the Company to hold executives accountable for actions or omissions that result in significant reputational or financial harm to the Company. The Board argues that all of the Company's employees who receive equity grants under the Company's Long-Term Plan are subject to an additional claw back policy that requires the cancellation and/or repayment of incentive compensation (both short-term and long-term) if the Committee determines that the Company was required to materially restate its financial results because of the employee's willful misconduct or gross negligence.

PIRC Analysis: It is in shareholders' interests for the Company to adopt a policy of recoupment in the circumstances set out by the Proponents.

Triodos supports this resolution.

9 Shareholder Resolution: Eliminate Above-Market Earnings in Executive Retirement Plans For

Proposed by: The Association of BellTel Retirees Inc.

The Proponent requests that the Board adopt a policy that prohibits the practice of paying above-market earnings on the non-tax-qualified retirement saving or deferred income account balances of senior executive officers. This policy should be implemented prospectively and apply only to senior executive officers in a manner that does not interfere with any contractual rights.

Proponent's Supporting Argument: The Proponent states that the Company offers senior executive officers far more generous retirement saving benefits than rank-and-file managers and other employees receive under the company's tax-qualified saving plans, in our view. One costly and unjustifiable feature is the payment of an above-market rate of return on the multi-million dollar supplemental non-tax-qualified savings and deferred income account balances of senior executives. Proxy advisor Institutional Shareholder Services flagged this practice in its 2017 proxy analysis report, stating that Verizon "provided guaranteed earnings rates on deferred compensation that are above what can be earned in the general marketplace. This non-performance-based benefit creates additional costs to shareholders." The Verizon Executive Deferral Plan allows executives to contribute or defer compensation significantly above applicable IRS limits, including without limit the long-term incentive compensation that represents the bulk of their annual income. In 2016, CEO Lowell McAdam received $100,855 in "above-market earnings" on his non-qualified plan assets, which totaled just under $12 million at year-end. The six named executive officers cumulatively held more than $50 million in non-qualified accounts at year-end 2016.

Board's Opposing Argument: The Board recommends shareholders oppose as the proposal fundamentally misrepresents the investment returns paid to participants in Verizon's Executive Deferral Plan, which we refer to as the Deferral Plan. None of the 28 hypothetical investment options offered under the Deferral Plan pay a premium above what can be earned in the market. All but one of the hypothetical investment options simply mirror the performance of the investment options available under Verizon's tax-qualified 401(k) savings plan. The one additional hypothetical investment option, which is referred to as the Moody's investment option, offers a return equal to the long-term, high-grade corporate bond yield average as published by Moody's Investor Services Inc. – in other words, a rate entirely reflective of today's market rate for loans to large corporations such as Verizon. With regards to the references to the "above market earnings" mentioned in the summary compensation table, these figures relate to the amounts that the individuals elected to invest in the Moody's investment option. In 2017, the annual rate of return on the Moody's investment option was approximately 4.135%. Given that the S&P 500 Price index returned over 18% in 2017, it is unreasonable and unfair to characterize the returns on the Moody's investment option as "preferential" or "above-market."

PIRC Analysis: The proposed implementation of the policy is reasonable and it applies only to earnings on the non-tax-qualified retirement saving or deferred income account balances. The proposal is in the best interest of shareholders.

Triodos supports this resolution.

SUPPORTING INFORMATION FOR RESOLUTIONS

Proposal 3 - Advisory Vote to Ratify Named Executive Officers' Compensation

Disclosure: C- Annual cash incentives are based on adjusted earnings per share (EPS), total revenue and free cash flow and a diversity and sustainability metric. The Company granted long-term incentives in the form of Performance Stock Units (PSUs) and Restricted Stock Units (RSUs). PSUs are based on relative total shareholder return (TSR) and on cumulative free cash flow. Specific targets are disclosed. However, the targets are based of non-GAAP metrics. The use of non-GAAP metrics prevents shareholders from being able to fully assess the challenging nature of the performance targets.

Balance: D- For fiscal 2017, annual cash awards were excessive. Awarded pay for the CEO is aligned with companies of a similar market capitalization. However, rewarded executive compensation is above peer group averages. The CEO's maximum opportunity exceeds 200% of his base salary which is not considered best practice. In addition, his 2017 long-term plan target award opportunity was set at 750% of base salary which is excessive. The Company granted RSUs with no performance conditions.

Contract: C- The Company's Long-Term Incentive Plan requires both a change in control and an involuntary termination for accelerated vesting of awards.

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