

MIND THE GAP

CEO Remuneration and the Scandinavian Corporate Governance Landscape





INTRODUCTION

The corporate governance landscape has been changing and executive remuneration has been, and continues to be, a topical issue engaging the attention of investors, corporations, politicians, the media and society. Scandinavian corporations are not exempted from this phenomenon. Excessive executive compensation continues to make headlines almost every year in most parts of the world. It is worth-noting that, since Annual General Meeting results are not disclosed in Scandinavia, it is relatively an arduous task to track post engagement results of issuers and their shareholders. Even though the minutes are available to shareholders, it is not mandatory for the company to disclose the voting results on the company's website.

The companies included in this analysis are the most liquid companies listed in each country which are covered in OMX Copenhagen 20 (Denmark), OMX Stockholm 30 (Sweden), OMX Helsinki 25 (Finland), and OBX 25 (Norway). However, since some companies did not disclose the compensation for the Chief Executive Officer on an individual basis; we excluded those companies from the analysis. In total 85 companies were incorporated in this analysis, 13 companies from Denmark, 28 companies from Sweden, 23 companies from Finland, and 21 companies from Norway.

Key Findings:

- Board remuneration reporting & disclosures are not as transparent.
- In 2016, the CEO's average total realised compensation rose by 25% against 2015. However, the average TSR dropped by 16%.
- The CEO of Fingerprint Cards, Jörgen Lantto, was the highest paid CEO among the Scandinavian companies, for the financial year 2016, used in this analysis. He also had the highest increase in realized compensation. From 2015 to 2016, his

realized compensation grew by 9,427%, TSR of the company also dropped by 1,645% compared to 2015.

- The least paid CEO was Bjørn Kjos of Norwegian Air Shuttle ASA. The company showed a negative shareholder return of 11%.
- There was no female CEO who made it to the list of ten highest paid CEO among Scandinavian companies. However, the CEO of Swedbank Birgitte Bonnesen and CEO of Skandinaviska Enskilda Banken AB Annika Falkengren were among the ten CEOs who had the highest increase in total realized compensation from 2015 to 2016.
- Companies are placing a lot more emphasis on long-term variable pay per our analysis. The base pay and short-term incentive elements of pay structures have relatively decreased and the long-term incentive elements have increased.
- Norway is the only country that showed an increase in percentage of base pay. However, they rebalanced variable pay towards long-term incentives (LTI) from short-term incentives (STI).
- Analysis performed by Directorinsight shows that at least 30% of the Scandinavian companies display a negative misalignment between pay and performance (Total Shareholder Return) on a one, three and five-year basis.

The resonating fact is that almost all the codes in the region encourage the need to link compensation to determinable performance across determinable number of years.



CORPORATE GOVERNANCE CODE'S

Sweden

The Swedish Corporate Governance Code recognizes the importance of linking performance to executives and as such states that variable remuneration is to be linked to predetermined and measurable performance criteria aimed at promoting the company's long-term value creation. Share and share-price related incentive programs are to be designed with the aim of achieving increased alignment between the interests of the participating individual and the company's shareholders. The vesting period from the commencement of an agreement to the date for acquisition of shares should not be less than three years. Referring to executive share ownership, the code also states, among other things, that programs that involve acquisition of shares are to be designed so that a personal holding of shares in a company is promoted. Variable remuneration paid in cash is to be subject to predetermined limits regarding the total outcome.

Finland

The Finnish Corporate Governance Code states that remuneration must promote the long-term success of the company and as such Non-executive directors (NEDs) are stopped from participating in the same incentive plan like the executives. Such scenario may hamper the long-term success of the company and breed conflict of interest. Remuneration must be based on predetermined and measurable performance and result criteria. According to the rationale, with regard to variable components, the period for which the fulfilment of the set performance and result criteria are evaluated (earning period), must be specified. The company should set limits to the variable components remuneration. In addition, the company may require that the remuneration for the earning period be disposable only after a certain predetermined period once the earning period (restriction period) has closed.

Remuneration that has been paid out without grounds shall be reclaimed in accordance with the regulations on returning an unjust enrichment.

Denmark

The Danish Corporate Governance Code states that when remunerating management, there should be transparency and clarity about all important issues regarding company policy and remuneration should support long-term value creation for the company. The variable component of the remuneration (the incentive pay scheme) should be based on actual achievements over a period of time with a view to long-term value creation so as not to promote short-term and risky behaviour. The code also stipulates that when remuneration includes variable components, there should be limits on the variable components of the total remuneration package. The following points were also enumerated:

- a reasonable and balanced linkage to be ensured between remuneration for governing body members, expected risks and the value creation for shareholders in the short and long-terms;
- there should be clarity about performance criteria and measurability for award of variable components;
- there should be criteria ensuring that qualifying periods for variable components in remuneration agreements are longer than one calendar year; and
- an agreement is made to which, in exceptional cases, entitles the company to reclaim in full or in part variable components of remuneration that were paid on the basis of data, which proved to be misstated.



Norway

For the Norwegian Corporate Governance Code, greater emphasis was placed on performance related compensation being such that it discourages short-term approach from management. Performance related remuneration should not be damaging to the company's long-term interests and should be subject to an absolute limit. Where a company's earnings or share price are heavily influenced by external forces, the board of directors should consider using other forms of incentive arrangement where the incentive can be linked to quantifiable targets over which the executive personnel has a greater degree of influence. Great care should be taken when awarding options or similar benefits to executive personnel. The board of directors should ensure that simulations are carried out of the effects of the structure of performance-related remuneration as part of the evaluation of the possible outcome of the

structure that is selected. Any share option schemes should be combined with direct ownership of the underlying shares in order to make the interests of members of management more symmetrical with those of the company's other shareholders. In order to reduce the risk of a misrepresented financial result, the dates of vesting, issue and exercise of options and other performance-based remuneration should be spaced out over time, and any shares acquired through the exercise of options should be subject to a minimum period of ownership. Executive personnel should be encouraged to continue to hold a significant proportion of shares they receive beyond the expiry of the relevant lock-up periods. The company should seek to ensure the right to demand the repayment of any performance-related remuneration that has been paid on the basis of facts that were self-evidently incorrect, or as the result of misleading information supplied by the individual in question.

Summary of Corporate Governance Code

Country	Promote long-term value creation	Recommend a variable incentive cap	Retention for non-cash instruments	Clawback	Promote executive share ownership
Sweden	✓	✓	✓ *	n/a	✓
Finland	✓	✓	✓ **	✓	✓
Denmark	✓	✓	✓ ***	✓	n/a
Norway	✓	✓	✓ **	✓	✓

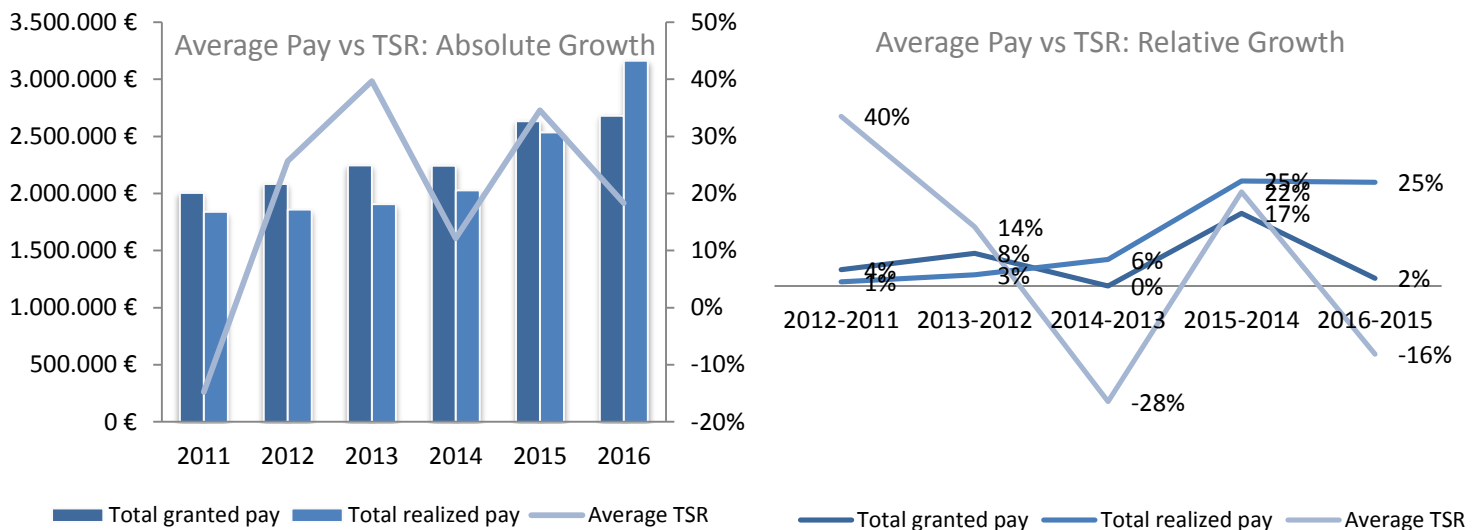
* Minimum three years ** To be set by the company *** Longer than one calendar year





OVERVIEW OF PAY vs. TOTAL SHAREHOLDER RETURN

The average granted pay and realized pay kept growing in slow but at steady pace while the average Total Shareholder Return (TSR¹) fluctuated along the years. The following graph shows how average (granted² and realized³) pay and TSR of Scandinavian companies evolved from 2011 until 2016.



In 2011, the average granted pay for CEOs among Scandinavian companies was EUR 2 million, average realized pay was EUR 1.8 million, and the average TSR was at -14.8%. In 2013, average TSR climbed by 14% relative to financial year 2012. However, it was not accompanied by high increase in total pay. The average realized pay increased by an insignificant amount to EUR 1.9 million and the average granted pay rose to EUR 2.2 million.

When the average TSR dropped in 2014, the total granted remained at EUR 2.2 million and the average realized pay increased into EUR 2 million. From 2014 to 2015, average TSR climbed to 34.6% and average granted pay climbed from EUR 2.2 million to EUR 2.63 million. Average realized pay also increased from EUR 2 million to EUR 2.5 million. In 2016, average TSR dropped to 18% which was not aligned with increase in average pay. Both average granted and realized pay climbed to EUR 2.6 million and EUR 3.1 million respectively.

Despite the overall trend of absolute TSR increasing from 2011 to 2016, the overall trend in the relative growth showed that in 2016, the TSR had not increased as much as it had before in 2011.

In relative growth terms, from 2011 to 2012, granted pay and realized pay grew by 4% and 1% respectively while average TSR increased by 40%. From 2012 to 2013, though the TSR had increased, but it was not as high as the previous increase. Relative growth of TSR dropped sharply by 14% while average granted pay and average increased by 8% and 3%. Interestingly, from 2013 to 2014, there was no growth recorded for average granted pay but average realized pay increased by 6%. Average TSR also dropped by 28%. In 2016, average granted pay grew by just 2% but average realized pay grew by 25% from the preceding year. TSR also dropped by 16% from the financial year 2015.











¹ TSR is defined here as the total return of a stock to an investor. It combines annual changes in share price (adjusted share price), dividends paid and expressed as an annualized percentage.

² Pay as used in this study refers to the Total figure comprising Base Salary, Benefits, Pensions, Cash Component of Annual Incentives, Shares and Options granted in the year.

³ Pay as used in this study refers to the Total figure comprising Base Salary, Benefits, Pensions, Cash Component of Annual Incentives, and Shares that vested in the year as well as Options exercised in the year.



TOP INCOME GROWERS

Company	CEO		TRC Growth	TSR Delta	
Fingerprint Cards AB	Jörgen Lantto		9,427%	-1,645%	▼
Kinnevik AB	Lorenzo Grabau		720%	-11%	▼
Nokian Renkaat Oyj	Ari Lehtoranta		157%	-59%	▼
Marine Harvest ASA	Alf-Helge Aarskog		136%	15%	▲
Cargotec Corporation	Mika Vehviläinen		90%	-10%	▼
Swedbank AB	Birgitte Bonnesen		84%	25%	▲
Getinge AB	Alex Myers		83%	-60%	▼
SalMar ASA	Leif Nordhammer		77%	41%	▲
Skandinaviska Enskilda Banken AB	Annika Falkengren		59%	20%	▲
ABB Ltd.	Ulrich Spiesshofer		58%	35%	▲

The above table shows the CEOs whose pay had the most increase from 2015 to 2016. The CEO of Fingerprint Cards was in the top position with an increase of 9,427%. The total realized compensation for the CEO in 2016 amounted to EUR 62 million compared to EUR 0.65 million in 2015. Jörgen Lantto left Fingerprint Cards on July 31, 2016. The total compensation used in this analysis is the sum of Jörgen Lantto's compensation when he was the CEO of the company and the compensation of Christian Fredrikson since he was appointed as new CEO on August 1, 2017. However, the compensation of Fredrikson only represents 1% of total realized compensation in 2016.

2016 was the best year to date for Fingerprint Cards, when the consolidated revenues reached the highest in the Group's history to SEK 6638 million. Compared to 2015, the revenue increased by 129% from SEK 2,900 million. However, the high jump happened in 2015, when the revenue increased by more than 1,142% from only SEK 233.6 million in 2014. The

driver of the sales increment was the successes of the company's products in the mobile phone market. The company's Class B share price significantly increased by 1,598% to close to SEK 591 (34.80) in 2015. The Company decided to do 5-for-1 share split in June 2016. However, the closing price of Class B share in 2016 declined by 47% to SEK 62.8 compared to SEK 118.2 (adjusted by the share split) in 2015. Competition in the sector was increasing and newer rivals in Asia and Norway were emerging, amid pressure on prices from cost-conscious smartphone makers. TSR for the company fell by 1,645% in 2016 compared to 2015.

Since this company's payment system is heavily influenced by its share price movement, it will be interesting to see how much the CEO is likely to get judging from its first half performance. The revenue for first half of 2017 was down by 52% to SEK 1,509 million compared to first half of 2016 and the share price after the announcement of the results at July 21, 2017 was SEK 34.59.

In second place is Kinnevik's CEO whose total realized compensation grew by 720% in 2016 compared to 2015. In 2016, the total realized compensation for the CEO was EUR 16 million up from EUR 1.98 million in 2015. On the other hand, the TSR dropped by 11% in the same period. The TSR of Nokian Renkaat, Cargotec, and Getinge also showed a decrease by 59%, 10%, and 60% respectively while their total

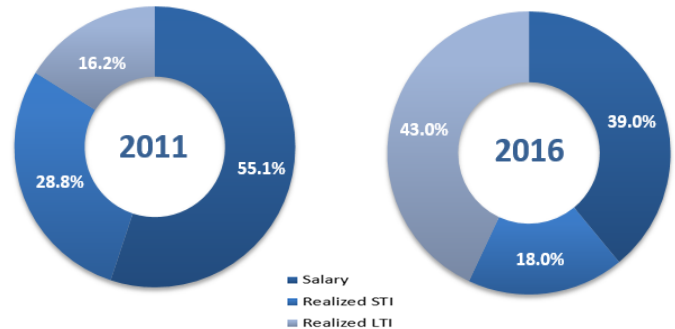
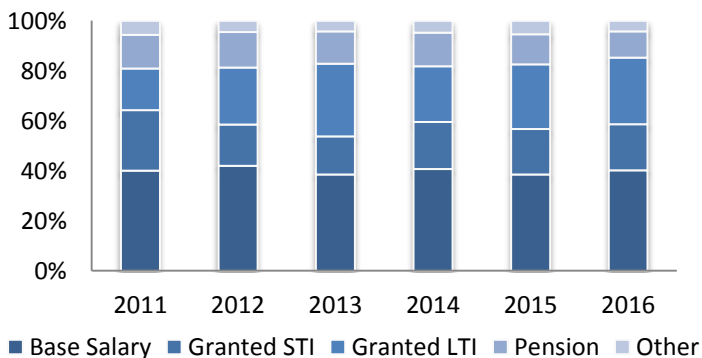
realized compensation actually was among the top growers. From the analysis above it shows that there is a misalignment between executive pay and company TSR, as the company's executives witnessed sharp increase in pay while TSR on the other hand decreased over the same period. This gives insight that an increment in compensation does not always align with increase in TSR.

COMPENSATION MIX DESIGN: FIXED VS VARIABLE

Variable pay has been talked about mostly of late, particularly the ratio between fixed and variable pay. From the following graphs, we highlight some of the key trends in executive remuneration, both with regards to actual remuneration levels and outcomes.

The most notable trend is that base pay has dropped significantly from 2011 to 2016 realized compensation. In 2011, base pay formed 43.7% of realized compensation. This has dropped significantly to 34.1% in 2016. Again, we see a gradual shift of greater emphasis on Long-Term Incentives. In 2011, LTI formed just 12.8% of realized pay for CEO in the Scandinavia. This has also risen to 37.7% in 2016. The observation is quite different for actual pay granted. In 2011, base pay formed 40% of the average CEO pay mix, with STI and LTI accounting for 24.3% and 16.6% respectively. In 2016, although base pay still formed 40% of actual granted pay, companies shifted to more long-term basis variable pay. The STI formed 18.5% of granted compensation while the LTI formed 26.5% of granted compensation.

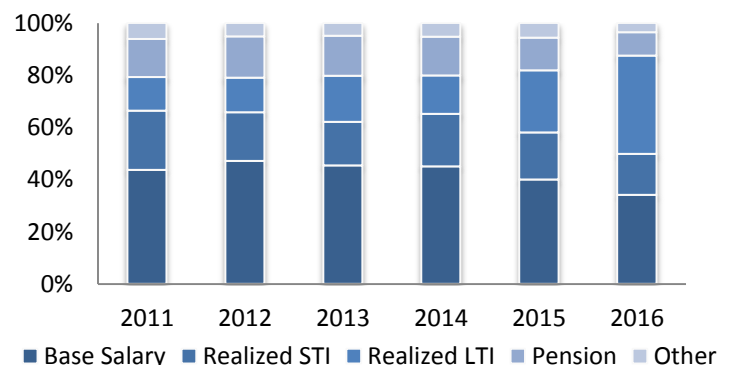
Average CEO granted pay break-down



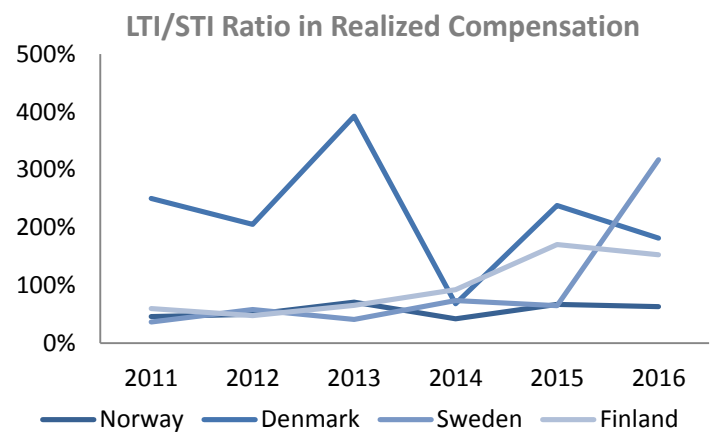
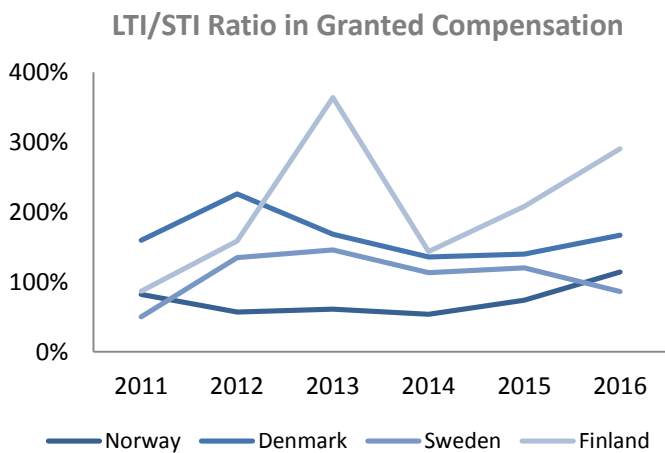
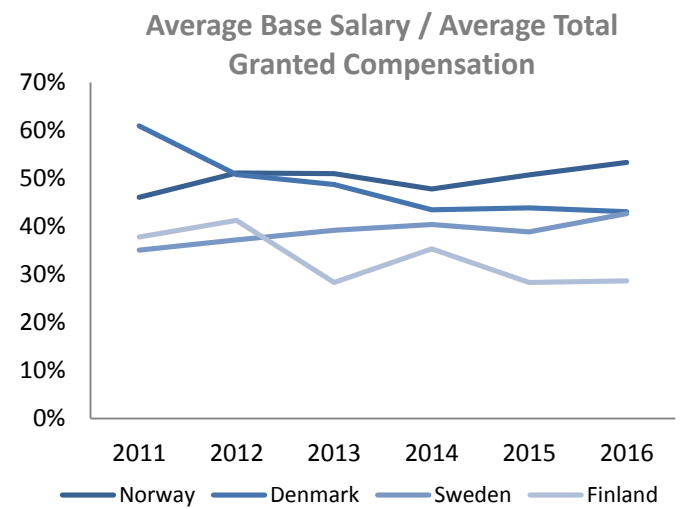
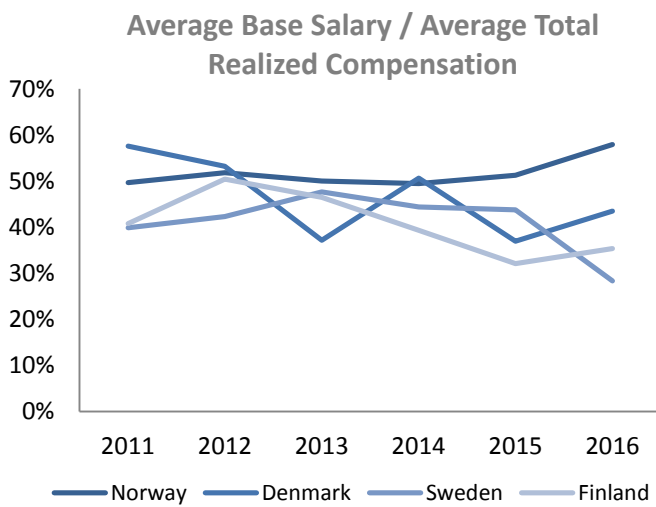
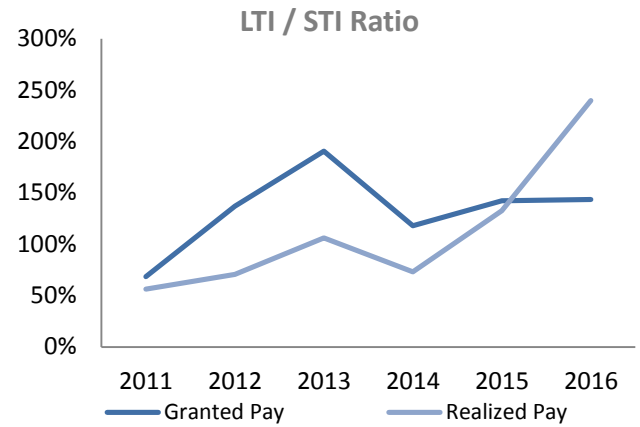
The percentage of LTI to STI has been significantly increased. In 2011, the LTI to STI ratio was 68.4% for granted compensation and 56.2% for realized compensation. While in 2016, the LTI to STI ratio was 143.6% for granted compensation and 239% for realized compensation. It is aligned with the companies' objective to incentivize the executive based on long-term interest.

If we take a closer look on a country level, Norway is the only country that had an increase in the percentage of average base pay for both average total granted compensation and average total realized compensation. In 2011, for Norway, average base pay formed 46% of granted compensation and 50% of realized compensation.

Average CEO realized pay break-down



For granted pay, all of the countries showed an increase in LTI/STI ratio. Finland had the highest increase. The LTI/STI ratio was 87% in 2011 and 290% in 2016. In term of realized pay, Denmark was the only one who showed a decrease in LTI/STI ratio. It was 250% in 2011 and 182% in 2016. Sweden showed the most significant increase in LTI/STI ratio. It was 37% in 2011 and 317% in 2016.





PAY FOR PERFORMANCE TRACKER

The pay for performance analysis conducted by DirectorInsight shows that there is still a significant misalignment between pay and performance in the Scandinavian companies.


















- On a one-year basis, 30% of the companies display negative misalignment
- On a three-year basis, we find a proportion of 30% displayed negative misalignment
- On a five-year basis, 33.33% displayed negative misalignment.


















The table below captures the total CEO realized compensation for all Scandinavian constituents against their peers in the index, as well as their respective 2016 TSR.


















The relative ranking shows that Fingerprint Cards' CEO is in the first position with the total realized compensation of EUR 62 million in 2016. On a three-year period, the realized compensation increased by 15,666%. Dramatic rise in the share price could be the explanation for this. Even though the TSR in 2016 was the lowest among the companies, the three-year period TSR was the highest compared to the others. EUR 100 investment made at year-end 2013 for this company would be worth of EUR 579 at year-end 2016.


















Getinge's CEO was also one of the most paid in Scandinavian regardless their TSR position in the relative ranking. The total realized compensation was EUR 7.1 million and the TSR was -33% in 2016. The TSR was ranked 4th percentile. Unlike Fingerprint Cards who showed a positive and high three-year period TSR, EUR 100 investment made at year-end 2013 for Getinge would lead to negative return of EUR - 30 at year-end 2016. The same negative misalignment also happened for Ericsson. The realized compensation was ranked 89th percentile while the TSR was ranked 5th among the companies in 2016. The three-year period also showed a high rank of realized compensation in 92nd percentile and 8th percentile for the compensation.


















Albeit the high percentage of TSR, the CEO of SalMar ASA was among the least paid in Scandinavian companies. The total realized compensation was EUR 0.6 million with a TSR of 73%. EUR 100 investment made at year-end 2013 for SalMar ASA would be worth of EUR 430 at year-end 2016.

Scandinavian		2016				2014-2016				2014-2016				Current value of investment made of € 100 at year-end 2013
		Total Realized Compensation (in Mln €)	TSR	Percentile Compensation	Percentile TSR	Δ TRC	Δ TSR	Percentile Compensation	Percentile TSR	Total Realized Compensation (in Mln €)	3Y TSR	Percentile Compensation	Percentile TSR	
	Fingerprint Cards AB	62.3	-47%	100	0	15666%	-11%	100	40	63.4	479%	100	100	579
	Kinnevik AB	16.2	-6%	99	20	686%	6%	99	56	20.3	-13%	96	13	87
	AstraZeneca PLC	8.1	0%	98	29	71%	-32%	84	16	23.4	41%	99	50	141
	ABB Ltd.	7.8	31%	96	67	39%	30%	74	75	18.3	26%	93	31	126
	Getinge AB	7.1	-33%	95	4	64%	-16%	80	31	15.3	-30%	90	5	70
	Genmab A/S	6.7	28%	94	64	274%	-42%	96	10	19.7	453%	95	99	553
	Coloplast A/S	6.7	-12%	93	12	27%	-60%	67	1	22.1	43%	98	53	143
	Outokumpu Oy	5.2	211%	92	100	394%	177%	98	99	9.4	139%	77	86	239
	KONE Oy	4.9	12%	90	44	7%	-7%	46	45	14.1	43%	89	51	143
	Telefonaktiebolaget LM Ericsson	4.8	-32%	89	5	-9%	-56%	30	4	16.7	-24%	92	8	76
	UPM-Kymmene Oy	4.7	43%	88	83	29%	26%	70	73	13.7	118%	87	84	218
	ASSA ABLOY AB	4.6	-4%	87	25	0%	-28%	38	21	13.4	56%	86	63	156
	AB Electrolux	4.1	14%	86	50	13%	-28%	57	20	14.0	49%	88	58	149
	Skanska AB	4.0	36%	85	71	32%	3%	72	53	10.8	84%	80	74	184
	Novo Nordisk A/S	3.9	-35%	83	2	8%	-68%	48	0	13.4	36%	85	43	136
	Skandinaviska Enskilda Banken AB	3.9	14%	82	49	143%	-9%	91	43	7.9	31%	73	38	131
	Atlas Copco AB	3.8	37%	81	75	6%	11%	44	63	11.0	69%	81	69	169

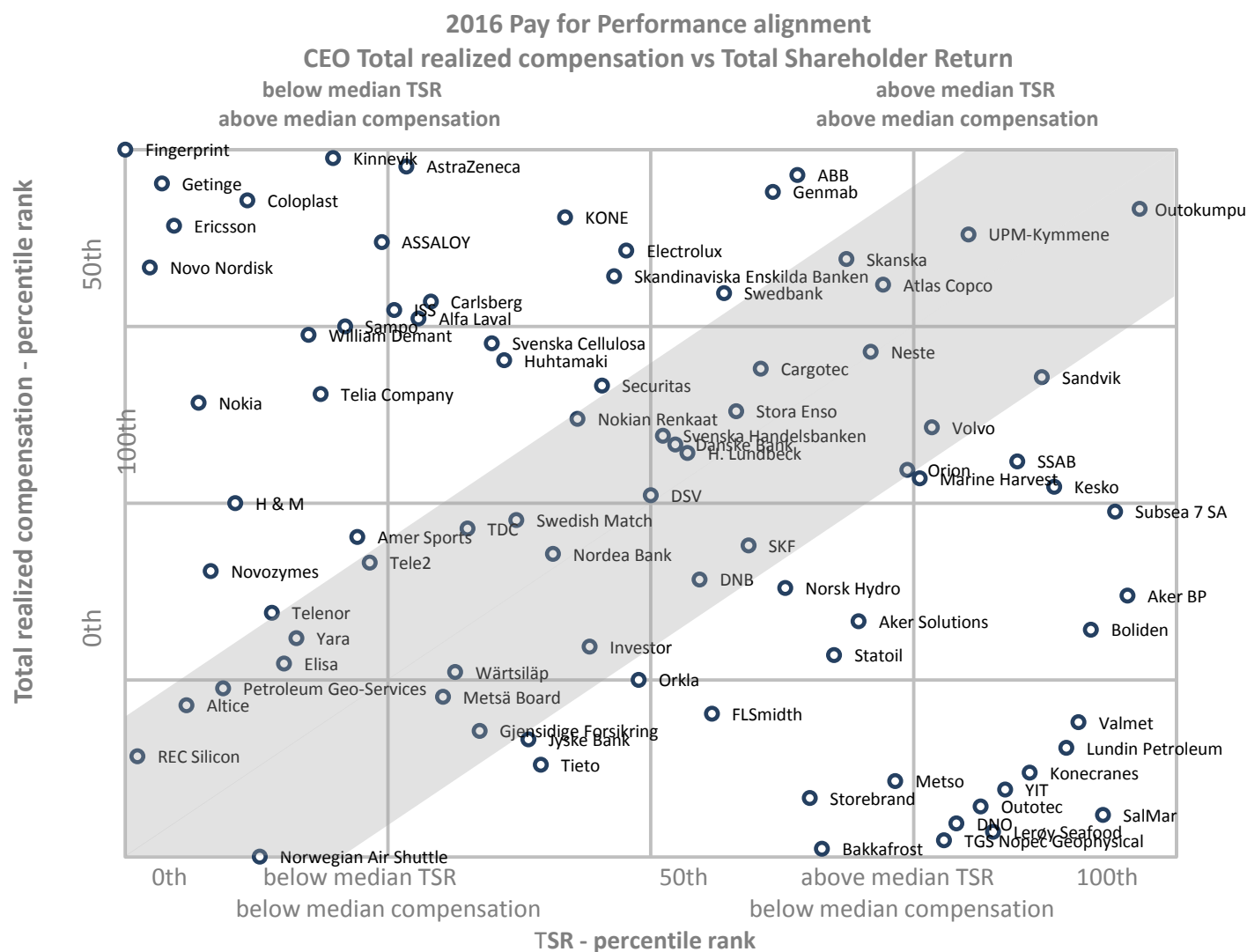
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	Swedbank AB	3.6	26%	80	60	123%	11%	89	64	7.1	45%	67	54	145
	Carlsberg A/S	3.1	1%	79	31	56%	20%	78	69	18.9	6%	94	23	106
	ISS A/S	2.9	0%	77	27	2%	n/a	40	n/a	8.5	n/a	75	n/a	n/a
	Alfa Laval AB	2.9	1%	76	30	39%	9%	73	59	7.6	-1%	69	18	99
	Sampo Oyj	2.8	-5%	75	21	-6%	-18%	33	28	10.4	37%	79	44	137
	William Demant Holding A/S	2.6	-7%	74	18	49%	5%	75	54	6.1	17%	60	26	117
	Svenska Cellulosa Aktiebolaget SCA	2.6	7%	73	37	-13%	19%	26	68	8.1	40%	74	49	140
	Neste Oyj	2.5	37%	71	74	8%	-9%	51	44	7.3	181%	68	94	281
	Huhtamaki Oyj	2.5	7%	70	38	198%	-13%	95	36	5.4	102%	51	80	202
	Cargotec Corporation	2.5	28%	69	63	-22%	32%	16	79	7.0	67%	65	68	167
	Sandvik AB	2.5	57%	68	90	18%	69%	58	91	9.0	38%	76	45	138
	Securitas AB	2.5	13%	67	48	-13%	-30%	27	19	7.9	131%	71	85	231
	Telia Company AB	2.4	-6%	65	19	18%	-6%	59	46	6.7	-17%	63	10	83
	Nokia Corporation	2.4	-27%	64	7	-26%	-47%	12	8	12.5	-9%	82	14	91
	Stora Enso Oyj	2.4	27%	63	61	-31%	21%	7	70	7.6	56%	70	60	156
	Nokian Renkaat Oyj	2.1	12%	62	45	119%	51%	88	86	3.9	18%	30	29	118
	AB Volvo	2.1	39%	61	80	-9%	36%	31	81	6.1	38%	57	46	138

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	Svenska Handelsbanken AB	2.1	18%	60	54	73%	-4%	85	48	5.1	39%	48	48	139
	Danske Bank A/S	2.1	21%	58	55	-2%	-16%	36	33	6.1	88%	58	78	188
	H. Lundbeck A/S	2.0	22%	57	56	-77%	31%	0	76	12.6	113%	83	83	213
	SSAB AB	2.0	53%	56	88	69%	60%	83	90	4.7	-30%	40	6	70
	Orion Oyj	2.0	38%	55	77	172%	5%	94	55	4.6	139%	38	88	239
	Marine Harvest ASA	2.0	39%	54	79	129%	-18%	90	26	3.6	164%	26	93	264
	Kesko Oyj	1.9	57%	52	92	19%	39%	62	83	5.1	105%	49	81	205
	DSV A/S	1.8	16%	51	52	-12%	10%	28	61	6.8	81%	64	73	181
	H & M Hennes & Mauritz AB	1.8	-13%	50	11	n/a	-27%	n/a	23	5.8	-6%	56	15	94
	Subsea 7 SA	1.8	73%	49	98	n/a	105%	n/a	96	5.4	-3%	54	16	97
	Swedish Match AB	1.8	7%	48	39	28%	-15%	68	34	4.9	66%	44	66	166
	TDC A/S	1.8	5%	46	35	20%	9%	63	60	4.7	-23%	42	9	77
	Amer Sports Corp.	1.7	-4%	45	23	4%	-13%	42	38	4.9	79%	45	71	179
	SKF AB	1.7	27%	44	62	-40%	26%	4	71	6.4	9%	61	24	109
	Nordea Bank AB	1.7	11%	43	43	-18%	7%	20	58	5.3	29%	50	34	129
	Tele2 AB	1.7	-4%	42	24	-23%	-41%	15	11	6.6	36%	62	41	136
	Novozymes A/S	1.6	-25%	40	8	-5%	-40%	35	13	4.9	10%	46	25	110

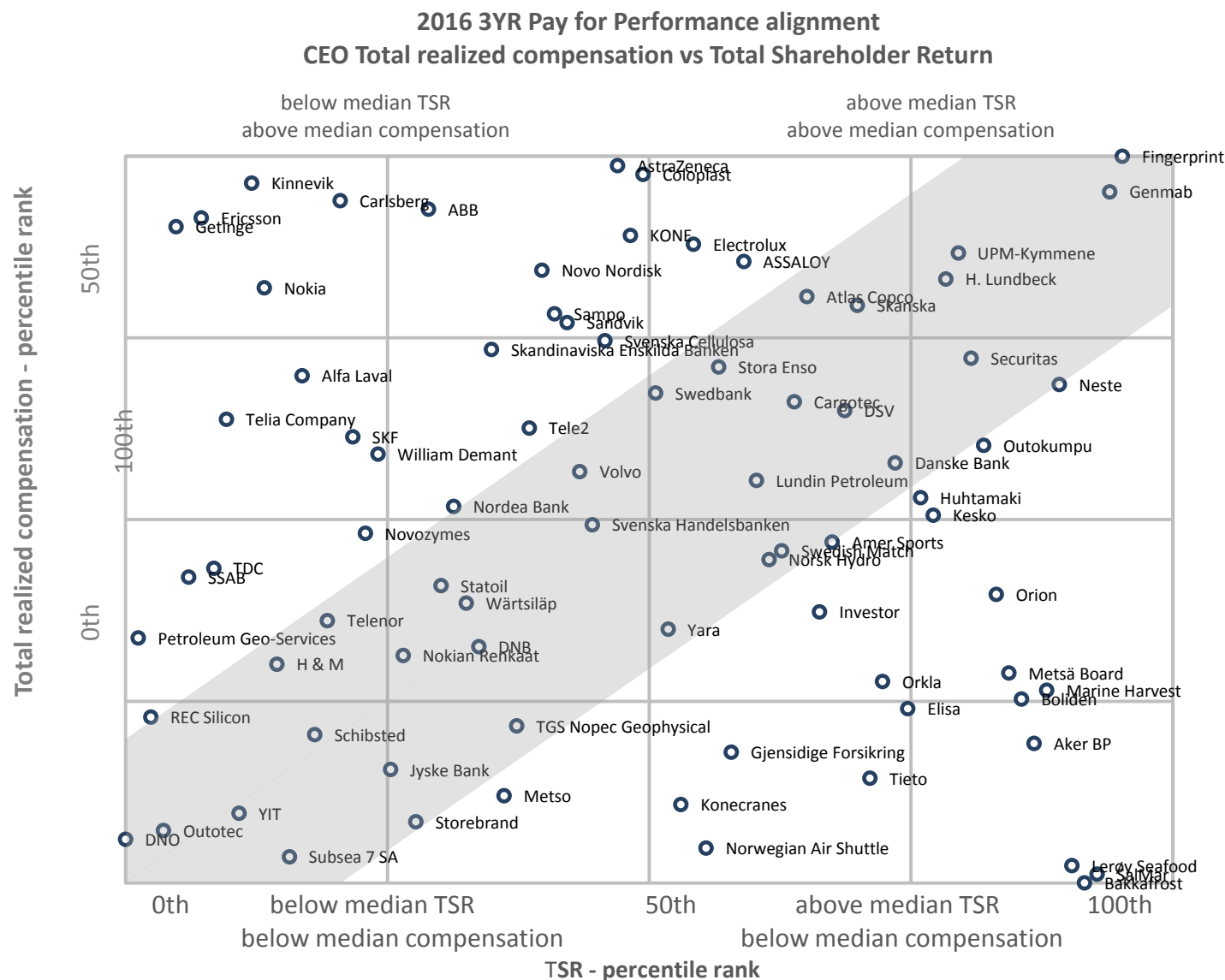
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	DNB ASA	1.4	22%	39	57	13%	17%	56	65	4.0	30%	31	36	130
	Norsk Hydro ASA	1.4	28%	38	65	-14%	-32%	25	18	4.8	65%	43	65	165
	Aker BP ASA	1.4	183%	37	99	58%	217%	79	100	3.2	159%	18	91	259
	Fortum Oyj	1.4	0%	36	26	-16%	n/a	22	n/a	5.4	n/a	52	n/a	n/a
	Telenor ASA	1.4	-8%	35	14	-19%	-18%	19	29	4.2	3%	35	20	103
	Aker Solutions	1.3	37%	33	73	153%	n/a	93	n/a	2.7	n/a	12	n/a	n/a
	Boliden AB	1.3	70%	32	95	29%	40%	69	84	3.6	155%	25	90	255
	Yara International ASA	1.3	-7%	31	17	10%	-39%	52	14	4.1	47%	33	55	147
	Investor AB	1.3	13%	30	46	-16%	-20%	21	25	4.3	69%	36	70	169
	Statoil ASA	1.3	36%	29	70	-33%	41%	5	85	4.7	28%	39	33	128
	Elisa Oyj	1.3	-7%	27	15	107%	-32%	86	15	3.4	88%	24	79	188
	Wärtsilä Oyj Abp	1.3	4%	26	33	-15%	-2%	23	49	4.6	30%	37	35	130
	Orkla ASA	1.3	16%	25	51	-1%	2%	37	50	3.8	87%	27	76	187
	Petroleum Geo-Services ASA	1.2	-20%	24	10	-31%	19%	6	66	4.1	-57%	32	1	43
	Metsä Board Oyj	1.2	2%	23	32	-30%	-44%	10	9	3.9	140%	29	89	240
	Schibsted ASA	1.2	-32%	21	6	12%	-51%	54	5	3.2	1%	19	19	101
	FLSmidth & Co. A/S	1.1	24%	20	58	n/a	31%	n/a	78	3.3	4%	23	21	104

Scandinavian		2016				2014-2016				2014-2016				Current value of investment made of € 100 at year-end 2013
		Total Realized Compensation (in Mln €)	TSR	Percentile Compensation	Percentile TSR	Δ TRC	Δ TSR	Percentile Compensation	Percentile TSR	Total Realized Compensation (in Mln €)	3Y TSR	Percentile Compensation	Percentile TSR	
	Valmet Corporation	1.1	63%	19	94	23%	n/a	65	n/a	2.9	n/a	15	n/a	n/a
	Gjensidige Forsikring ASA	1.0	6%	18	36	8%	-16%	49	30	3.0	56%	17	61	156
	Jyske Bank A/S	1.0	10%	17	40	8%	3%	47	51	2.8	17%	14	28	117
	Lundin Petroleum AB	0.9	62%	15	93	-69%	72%	1	93	5.5	58%	55	64	158
	REC Silicon ASA	0.9	-36%	14	1	-25%	-9%	14	41	3.2	-53%	21	3	47
	Tieto Oyj	0.9	11%	13	42	65%	-26%	81	24	2.8	86%	13	75	186
	Konecranes Plc	0.8	55%	12	89	5%	59%	43	89	2.4	49%	10	56	149
	Metso Corporation	0.7	37%	11	76	20%	28%	64	74	2.6	31%	11	39	131
	YIT Oyj	0.7	51%	10	87	11%	107%	53	98	2.2	-15%	8	11	85
	Storebrand ASA	0.7	31%	8	68	-7%	54%	32	88	2.1	21%	7	30	121
	Outotec Oyj	0.6	47%	7	85	-19%	88%	17	95	2.1	-32%	6	4	68
	SalMar ASA	0.6	73%	6	96	53%	-14%	77	35	1.3	330%	1	98	430
	DNO ASA	0.5	41%	5	82	-27%	75%	11	94	2.0	-65%	5	0	35
	Lerøy Seafood Group Asa	0.5	50%	4	86	3%	-12%	41	39	1.7	208%	2	95	308
	TGS Nopec Geophysical Co. ASA	0.5	41%	2	81	-67%	36%	2	80	3.2	35%	20	40	135
	P/F Bakkafrost	0.3	35%	1	69	18%	-50%	60	6	0.8	308%	0	96	408
	Norwegian Air Shuttle ASA	0.2	-11%	0	13	-30%	-58%	9	3	1.9	52%	4	59	152

The following charts show a company's relative degree of alignment for CEO pay and TSR performance over a 1, 3, and 5-year period, against other Scandinavian companies that are included in the pay for performance analysis. The companies that are situated within the grey area are considered companies that have a strong alignment between pay and performance. The companies above and below the grey area, show a pay for performance misalignment at this stage.

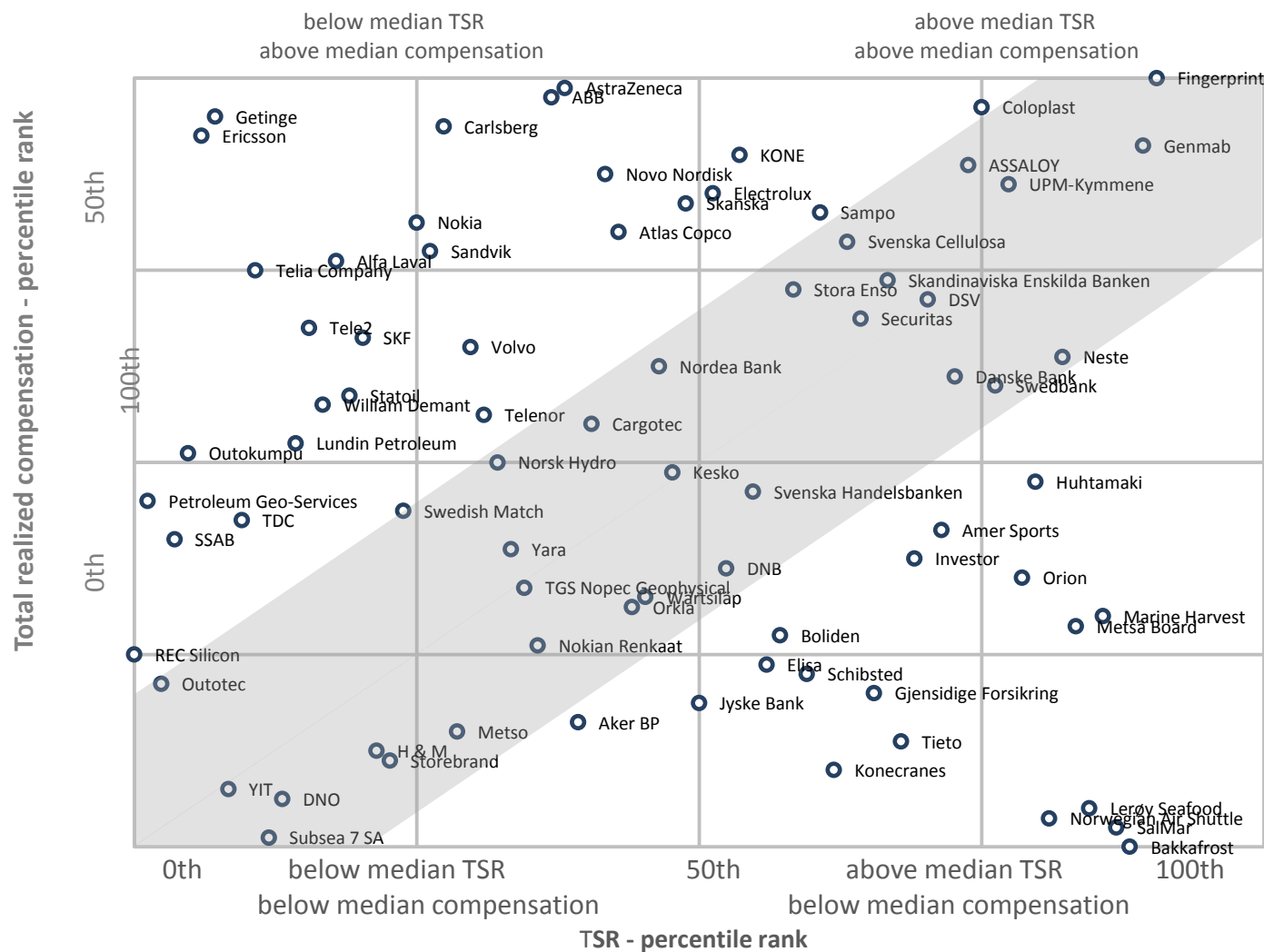


DirectorInsight's pay for performance tracker analysis shows that approximately 30% of the total companies have negative misalignment, 36% shows positive misalignment, and 34% shows a relative performance – compensation alignment. From the graph, we see that companies such as AstraZeneca, Fingerprint, and Ericsson display negative misalignment. This means that the relative ranking of pay is higher than that of performance. Nokia and H&M are also examples of companies whose CEO pay ranks relatively higher than that of TSR (Performance). Financial institutions Investor AB, DNB, Nordea Bank are displaying a relative alignment between pay and performance. Interestingly, mining companies such as Subsea 7 SA, Statoil, Lundin Petroleum display positive misalignment between pay and performance.



On a three-year basis, DirectorInsight's pay for performance tracker analysis shows that approximately 30% of the total companies have negative misalignment, 32.5% shows positive misalignment, and 37.5% shows a relative performance – compensation alignment. AstraZeneca, Nokia, and Ericsson maintained their negative relative misalignment from the one-year analysis. Fingerprint and H&M however display relative alignment between pay and performance representing a shift from their previous standings. Tele 2 and Nordea Bank which displayed alignment in the one year analysis currently display relative negative alignment between pay and performance. Investor AB and DNB however maintained their alignment between pay and performance. Mining companies Subsea 7 SA, Lundin Petroleum and Statoil which displayed positive misalignment between pay and performance currently display relative alignment in the three-year basis.

2016 5YR Pay for Performance alignment CEO Total realized compensation vs Total Shareholder Return



On a five-year basis, DirectorInsight's pay for performance tracker analysis shows that approximately 33.33% of the total companies have negative misalignment, 27% shows positive misalignment, and 39.67% shows a relative performance – compensation alignment. AstraZeneca, ABB, Nokia and Ericsson are examples of companies that have consistently displayed negative misalignment on one-year, three-year and five-year analysis respectively. H&M, DNB and Subsea 7 SA also maintained the alignment they displayed in the three- year analysis. Investor AB and Lundin Petroleum have respectively shifted in their degree of alignment. While Investor AB Now displays positive misalignment, Lundin Petroleum currently displays negative misalignment between pay and performance.

APPENDIX

Our methodology on total granted compensation explained

The granted compensation includes all granted components of compensation in the year of interest. It is defined as the sum of total indirect compensation granted and total direct compensation granted for one year. It consists of base salary + benefits + other compensation + bonus + deferred cash bonus + deferred share bonus + value of performance/restricted shares granted + value of performance/restricted options granted. When the company does not disclose the average share price over the last quarter, we use the company year-end share price to calculate the value of the vested multiyear share packages. In the event there were two CEOs in a year for a company, for example due to a change in CEO, we explored the companies on individual basis and annualized compensations depending on the issue at hand to make the total realized compensation as realistic as possible.

Our methodology on total realized compensation explained

The realized compensation includes all realized components of compensation in the year of interest. It is defined as the sum of total indirect compensation realized and total direct compensation realized for one year. It consists of base salary + benefits + other compensation + bonus + deferred cash bonus + deferred share bonus + value of performance/restricted shares vested + value of performance/restricted options exercised. When the company does not disclose the average share price over the last quarter, we use the company year-end share price to calculate the value of the vested multiyear share packages. In the event there were two CEOs in a year for a company, for example due to a change in CEO, we explored the companies on individual basis and annualized compensations depending on the issue at hand to make the total realized compensation as realistic as possible.

Total Shareholder Return (TSR)

Total shareholder return is defined as the total return of a stock to an investor. It combines annual changes in stock price and dividends paid and are expressed as an annualized percentage. This will be calculated over one-year (1Y), three-year (3Y) and five-year (5Y) period. The growth in 3Y and 5Y TSR is calculated by the percentage points of difference between latest year and 3/5 year prior. Please note that all figures have been rounded up in the table outlining the CEO pay for performance analysis. The relative growth of TSR is the difference between current year TSR and previous year TSR.

Investment return of 100 EUR

This figure looks to calculate how much a 100 EUR company investment would be worth over a period of time by indexing the TSR over multiple years.

Pay for performance Analysis

We conducted a study on CEO realized compensation to determine degree of alignment relative to peers among Scandinavian companies on a 1, 3, 5 years basis. The degree of alignment is determined by subtracting the compensation rank from the performance rank within a scope of +20 or -20. Results obtained on either side determine a more generous or a conservative remuneration policy. Therefore, for the three and five years' study, the percentile rank is calculated by the Total Realized Compensation over the period subtracted from the sum of the period TSR performance.

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ABOUT US



DirectorInsight is a specialist provider of data analytics and intelligence on the “G” of ESG. We help corporations, institutional investors, financial institutions and professional services firms to efficiently and effectively manage the increasing challenges they face in reviewing and addressing corporate governance risks and associated decision-making. DirectorInsight provides an integrated web-based, data technology solution, to independently analyze data on the value creation and governance practices of leading listed companies across the globe, in a single convenient solution. **Please contact us on +31 (0) 20 416 0662 or visit our [website](#) when you would like to obtain further information or a demo.**

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