

## EVALUATION OF EXECUTIVE REMUNERATION OF INDUSTRIAL AND FINANCIAL SYSTEMS, IFS AB (PUBL)

### *- Report by the Board pursuant to the Swedish Corporate Governance Code, Sections 9.1 and 10.3 -*

The following is a report from the Board regarding the evaluation for fiscal 2012 of:

- ongoing and completed programs for variable remuneration to senior executives during 2012;
- the application of the guidelines for remuneration for senior executives adopted by the Annual General Meeting (AGM) on 29 March 2012; and
- the current remuneration structures and levels applicable in IFS.

#### **1. GENERAL**

##### **The Board's remuneration work**

The Board has decided not to appoint a separate remuneration committee. Remuneration of the CEO is determined by the Board, as are the principles and earnings targets for variable remuneration of the CEO and senior executives reporting to the CEO. The Board member being part of the senior management of the company does, however, not participate in this work.

Other remuneration of senior executives reporting to the CEO is determined in consultation with the Chairman of the Board, and information is subsequently provided to the other members of the Board.

##### **The 2012 remuneration guidelines**

Pursuant to the remuneration guidelines adopted by the AGM in 2012, a senior executive's total remuneration consists of fixed salary, variable remuneration, incentive programs, pension contribution, and other benefits.

Pursuant to the remuneration guidelines, the basic salary shall be on market terms and related to the executive's position, responsibility, competence, and experience.

Variable remuneration shall be linked to predetermined measurable criteria designed to promote long-term value generation in the company. The relationship between basic salary and variable remuneration shall proportionate to the executive's responsibility and powers. Hence, the variable remuneration varies according to position.

The basis for the variable remuneration of the CEO and other corporate management executives is established by the Board and is based on individual goals linked to profitability targets set by the Board for each year. The variable remuneration is thus linked to predetermined and measurable criteria. Moreover, the variable remuneration is linked to a specified maximum portion (where applicable determined in intervals) of the basic salary. Thus, there is a fixed upper limit for payment of variable remuneration.

The variable remuneration is also designed to promote the company's long-term value creation in the sense that no variable remuneration will be paid if the profitability targets are not reached.

Pursuant to the resolution of the AGM, the Board has been mandated to deviate from the remuneration guidelines in individual cases if there is good reason to do so. In such an event, the Board shall inform the immediately following AGM and explain the reason for the deviation.

##### **Incentive programs**

The AGM of 2010 resolved to adopt an incentive program for corporate management and key personnel based on terms and conditions consistent with incentive programs adopted in previous years. The AGM of 2011 adopted a revised incentive program for the corporate management and other key executives, which had been adjusted in accordance with the rules of the newly adopted Swedish Corporate Governance Code. A new incentive program based on the same structure as the program from 2011 was adopted at the AGM of 2012. Under the program the corporate management and key personnel of the IFS group are offered to acquire warrants in the company at market price. To stimulate participation in the program employees are allotted, subject to certain conditions, up to three additional warrants free of charge for each warrant acquired at market price.

As for the AGM 2013 the Board intends to propose that a new incentive program be adopted based on the same structure as the 2011 and 2012 programs.

Following the 2013 program, the Board intends to evaluate and review the principles of long-term incentive programs in the future.

## **2. VARIABLE REMUNERATION FOR SENIOR EXECUTIVES IN 2012**

### **Levels for variable remuneration pursuant to the remuneration guidelines for 2012**

In accordance with the remuneration guidelines adopted by the AGM in 2012 the following levels for the variable remuneration to corporate management have been applied:

- For the *CEO*, the maximum variable remuneration must not exceed 50 percent of the basic salary.
- For the *other members of corporate management*, variable remuneration shall be payable in the interval 25 – 60% of the basic salary, based on achievement of 80 – 120% of individual goals.

Pursuant to the guidelines, the total maximum variable remuneration of corporate management for fiscal 2012 have been set at SKr 4.6 million.

### **Remuneration paid in 2012**

The variable remuneration to corporate management amounted in 2012 to a total of Skr 474,000.

The total remuneration paid to the CEO in 2012 amounted to Skr 3,584,000, of which Skr 0 consisted of variable remuneration. The variable remuneration to the other executives in the corporate management last year amounted to a total of Skr 474,000.

The variable remuneration in 2012 was exclusively based on the financial result of IFS.

### **Acquired warrants**

In 2012 the CEO acquired 19,425 warrants under the incentive program adopted by the AGM 2012 and may, under the terms of the program, obtain a maximum of 58,275 additional warrants free of charge. During 2012 the CEO has divested 119,500 warrants and presently holds a total of 79,050 warrants.

In total, during 2012 the other senior executives in the Group management acquired an aggregate of 17,108 warrants and may, under the terms of the 2012 incentive program, obtain, in the aggregate, a maximum of 51,324 additional warrants free of charge. This group of people have, in the aggregate, divested 106,000 warrants during 2012 and presently hold a total of 76,106 warrants.

## **3. CONCLUSIONS**

The remuneration guidelines adopted by the AGM in 2012 have been applied for all senior executives of the company during the year, and the Board has in no case exercised the mandate to deviate therefrom.

It is the Board's view that the remuneration guidelines are consistent with applicable law as well as the Corporate Governance Code.

Moreover, it is the Board's evaluation that the currently applied structures and levels of remuneration in IFS, as well as ongoing and completed programs for variable remuneration, are market adjusted, well-balanced and necessary for IFS to attract and retain skilled personnel.

In light of the above, it is the Board's overall conclusion that the guidelines, programs, structures and levels of remuneration to corporate management during 2012 are suitable, appropriate and applied in a manner consistent with applicable rules.

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Linköping, March 2013

*the Board*