



NILFISK REMUNERATION REPORT 2018

Remuneration Report



Contents

- 3 Remuneration Committee
- 3 Remuneration policy
- 4 Remuneration of the Board of Directors
- 5 Remuneration of the Executive Management Board and the Nilfisk Leadership Team
- 6 Annual bonus plan – short-term cash-based incentive plan for 2018
- 6 Long-term incentive programs overview for 2018
- 7 Share option program (2013-2016)
- 7 Phantom share program (2012-2016)
- 8 Appendix

Introduction

Based on the updated Recommendation on Corporate Governance issued in November 2017 by the Danish Committee on Corporate Governance, recommendation 4.2.3, this Nilfisk Remuneration Report 2018 includes information on the total remuneration received by each member of the Board of Directors and the executive board from the company and other companies in the group and associated companies for the past three years. This includes information on the most important content of retention and resignation arrangements, and the correlation between the remuneration and company strategy and relevant related goals.

There is a clear alignment between shareholder value creation and the remuneration policies for the Board of Directors, the Executive Management Board, and the Nilfisk Leadership Team. This Remuneration Report includes information on the total remuneration received by each member of the Board of Directors and the executive board from the company and other companies in the group and associated companies for the past three years.

Remuneration Committee

The overall responsibility of the Remuneration Committee is to oversee the remuneration of the Board of Directors, the Executive Management Board, and other members of the Nilfisk Leadership Team to ensure that the company’s remuneration practice is appropriate, balanced, and effective to achieve growth, profitability, and shareholder value. Part of this responsibility is to establish the Remuneration Policy for the Board of Directors and the Executive Management Board, for making proposals on changes to the Remuneration Policy, and for obtaining the approval of the Board of Directors prior to seeking shareholders’ approval at the Annual General Meeting. The Remuneration Committee also oversees the company’s short-term and long-term incentive programs, including awards, target-setting and a review of target achievements every year. The Remuneration Committee reports to the Board of Directors at all regular board meetings to ensure efficient decision-making.

Main activities in 2018

- In 2018, the main activities of the Remuneration Committee have been:
- Preparing, drafting and approving a new Remuneration Policy, which was adopted by the shareholders at the Annual General Meeting on March 23, 2018
 - Drafting and implementing a new long-term incentive program for key employees
 - Revising the existing targets and KPIs under the company’s annual bonus plan
 - Reviewing the achievement against targets under the company’s annual bonus plan

In 2018, a total of five meetings were held in the Remuneration Committee.

Key components in the remuneration of the governing bodies of Nilfisk

Remuneration	Board of Directors	Executive Management Board	Nilfisk Leadership Team	Comments
Fixed fee/base salary	•	•	•	Salary levels take into account market remuneration as well as the executives’ skills and experience
Fee for committee work	•			Members of Audit Committee, Nomination Committee and Remuneration Committee. The Chairman of the Board is not remunerated for committee participation
Short-term cash based incentive		•	•	Up to 70% of base salary for the Executive Management Board and up to 30% of base salary for the Nilfisk Leadership Team
Long-term share-based incentive		•	•	Up to 35% of base salary
Benefits		•	•	Company cars, phones, etc. comprising up to 10% of base salary
Pension		•	•	Up to 12% of base salary

Remuneration Policy

A new Remuneration Policy was adopted by the shareholders at Nilfisk’s Annual General Meeting on March 23, 2018. The Remuneration Policy takes into account the Recommendations on Corporate Governance as updated by the Danish Committee on Corporate Governance in November 2017 and in anticipation of the upcoming implementation into Danish law of the recent updates to the Shareholder Rights Directive (EU Directive 2017/828). The full Remuneration Policy can be found at investor.nilfisk.com.

Nilfisk’s Remuneration Policy, approved by the Annual General Meeting, contains guidelines for setting the remuneration for the Board of Directors and the salaries for the Executive Management Board. All members of these governing bodies receive competitive pay, which is commensurate with the duties assigned. Please refer to the appendix on page 8 for more information about key components and governing principles in the Remuneration Policy.

The Board of Directors receive a fixed salary, while members of the Executive Management Board receive a fixed salary, a short-term cash-based incentive and a long-term share-based incentive. This structure ensures commonality of interest between the management and shareholders of Nilfisk and maintains management’s motivation to drive both short-term results and long-term strategic goals.

Members of the Board of Directors are not entitled to any kind of compensation upon resignation as a member of the Board of Directors. Members of the Executive Management Board are not entitled to severance pay, in addition to remuneration in their notice period.

Under the previous Remuneration Policy, Nilfisk had two share incentive programs that applied respectively to certain members of the Nilfisk Leadership Team in the form of share options and to certain key employees in the form of phantom shares. No new incentives are issued under any of these programs but previously granted incentives are still vesting, and incentive holders are entitled to exercise upon full vesting.

Remuneration of the Board of Directors

Members of the Board of Directors receive a base fee as well as fees for committee duties. Fees are evaluated relative to Danish and other European companies of comparable size and complexity to Nilfisk. No member of the Board of Directors participates in any of the company's incentive plans.

Each member of the Board of Directors receives a fixed annual fee while the Chairman receives 3x the base fee and the Deputy Chairman receives 2x the base fee. In addition, a member of a board committee receives a supplemental annual fee per committee.

Members of the Board of Directors are not entitled to any kind of compensation upon resignation as a member of the Board of Directors.

Remuneration fees of the Board of Directors – 2018

Total remuneration (Cash-based) in thousands EUR

Board fee	
Chairman	120.8
Vice-Chairman	80.5
Member	40.3
Audit committee fee	
Chairman	26.8
Member	13.4
Nomination Committee fee	
Chairman	13.4
Member	6.7
Remuneration Committee fee	
Chairman	13.4
Member	6.7

Total remuneration of the Board of Directors – 2018

EUR thousand	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee	Total
Jens Due Olsen (Chairman) ¹	120.8	-	-	-	120.8
Lars Sandahl Sørensen (Deputy Chairman)	80.5	-	-	13.4	93.9
Jutta af Rosenborg	40.3	26.8	13.4	-	80.5
Jens Maaløe	40.3	13.4	6.7	-	60.4
René Svendsen-Thune	40.3	-	-	-	40.3
Anders Runevad	40.3	-	-	-	40.3
Gerner Raj Andersen ¹	31.3	-	-	-	31.3
Michael Gamtofte	40.3	-	-	-	40.3
Søren Giessing Kristensen ²	31.3	-	-	-	31.3
Yvonne Markussen ³	8.9	-	-	-	8.9
Jean-Marc Rios Dionne ³	8.9	-	-	-	8.9
Total	483.2	40.2	20.1	13.4	556.9

¹ Does not receive separate fee for participation in Nomination Committee

² Appointed March 23, 2018

³ Appointed October 10, 2017, and resigned March 23, 2018

Total remuneration of the Board of Directors – 2017⁴

EUR thousand	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee	Total
Jens Due Olsen (Chairman)	27.9	-	-	1.6	29.5
Lars Sandahl Sørensen (Deputy Chairman)	18.6	-	-	3.1	21.7
Jutta af Rosenborg	9.3	6.2	3.1	-	18.6
Jens Maaløe	9.3	3.1	1.6	-	14.0
René Svendsen-Thune	9.3	-	-	-	9.3
Anders Runevad	9.3	-	-	-	9.3
Yvonne Markussen	9.3	-	-	-	9.3
Jean-Marc Rios Dionne	9.3	-	-	-	9.3
Michael Gamtofte	9.3	-	-	-	9.3
Total	111.6	9.3	4.7	4.7	130.3

⁴ Pro-rated fees, since Board of Directors was formed on October 10, 2017

Comparative numbers for 2016 are not available since the Board of Directors was formed in 2017

Remuneration of the Executive Management Board and the Nilfisk Leadership Team

The members of the Executive Management Board and the Nilfisk Leadership Team receive a fixed salary, benefits of up to maximum 10% of the base salary, a pension plan where appropriate, a short-term cash-based incentive and a long-term share-based incentive.

This structure ensures commonality of interest between the management and shareholders of Nilfisk and maintains management's motivation to achieve both short-term and long-term strategic goals. Benchmarking on total remuneration level is used to ensure alignment with similar and comparable companies.

No member of the Executive Management Board is entitled to severance pay but will receive ordinary remuneration during their notice period.

The total remuneration to the Nilfisk Leadership Team has decreased from 10.5 mEUR in 2017 to 6.7 mEUR in 2018. The remuneration in 2017 was affected by the listing of Nilfisk Holding A/S where a one-off bonus and a severance payment was made to the former CEO. Any severance pay is included in salary and pension. The decrease is further impacted by a lower valuation of the phantom share program compared to 2017.

The tables show the expensed value of the total remuneration for the Executive Management Board and the Nilfisk Leadership Team. The two gray columns to the right show actual payout of the short-term bonus and long-term incentives, and by that the actual cash impact to the company.

Total remuneration for the Executive Management Board and the Nilfisk Leadership Team – 2018

EUR thousand	Salary and pension	Annual bonus	Other bonus	Long-term incentive	Other benefits	Total	Bonus, paid	Long-term incentive, paid
Hans Henrik Lund (CEO)	1,199.6	151.1	455.2 ¹	138.9	23.2	1,968.1	805.1	-
Karina Deacon (CFO)	498.4	64.1	-	52.5	17.4	632.4	114.5	-
Former members of the Executive Management Board	-	-	-	-	-	-	32.5	5,156.0
Nilfisk Leadership Team	4,138.8	389.5	-	-786.7 ²	358.5	4,100.1	641.2	5,409.5
Total	5,836.8	604.7	455.2	-595.3	399.1	6,700.5	1,593.3	10,565.5

¹ Extraordinary one-off bonus in connection with the listing of Nilfisk Holding A/S, approved at the Annual General Meeting on March 23, 2018

² The phantom share program was an income for the year, due to a decrease in the share price

Total remuneration for the Executive Management Board and the Nilfisk Leadership Team – 2017

EUR thousand	Salary and pension	Annual bonus	Other bonus	Long-term incentive	Other benefits	Total	Bonus, paid	Long-term incentive, paid
Hans Henrik Lund (CEO) ³	500.8	350.5	300.5	-	87.9	1,239.7		
Karina Deacon (CFO)	434.3	116.3	387.7 ⁴	16.0	22.9	977.2	526.2	-
Former members of the Executive Management Board	923.7	58.2	-	162.0	8.6	1,152.5	382.3	-
Nilfisk Leadership Team	3,029.0	629.8	802.5 ⁴	2,388.0	322.2	7,171.5	1,649.4	33.5
Total	4,887.8	1,154.8	1,490.7	2,566.0	441.6	10,540.9	2,855.9	33.5

³ Appointed August 1, 2018

⁴ Includes bonus regarding listing of Nilfisk Holding A/S in total 946.3 tEUR

Annual bonus plan – short-term cash-based incentive plan for 2018

The Executive Management Board and the rest of Nilfisk Leadership Team participates in the short-term cash-based incentive plan (STIP) with an annual cash bonus scheme. In 2018, the Executive Management Board and the rest of the Nilfisk Leadership Team were measured as shown below.

Executive Management Board short-term incentive plan, target overview – 2018

Target type	Weight in model	KPI
Group targets	60%	Organic revenue growth
		EBITDA margin (before special items)
		Working Capital in % of revenue
Personal targets	40%	Individually defined
Total	100%	

Nilfisk Leadership Team short-term incentive plan, target overview – 2018

Target type	Weight in model	KPI
Group targets	30-60%	Organic revenue growth
		EBITDA margin (before special items)
		Working Capital in % of revenue
Business unit targets	0-50%	Organic revenue growth EBITDA margin
Personal targets	40-70%	Individually defined
Total	100%	

For 2018, the STIP based on group targets, which make up 60% of the weight in the bonus model for the Executive Management Board, was met with 10.8% of the total bonus opportunity of 100%. For 2018, the STIP based on group targets, which make up 30-60% of the weight in the bonus model for the Nilfisk Leadership Team, was met with 5.4-10.8% of the total bonus opportunity of 100%.

For 2019 the KPIs for the STIP for the Executive Management Board and the Nilfisk Leadership Team will be as follows:

Executive Management Board and Nilfisk Leadership Team short-term incentive plan, target overview – 2019

Target type	Weight in model	KPI
Group targets	100%	Organic revenue growth
		EBITDA margin (before special items)
		Working Capital in % of revenue
		Employee engagement
Total	100%	

The removal of individual targets serves to ensure that the Executive Management Board and the Nilfisk Leadership Team are aligned as one team.

The addition of employee engagement serves to balance the financial goals with this key non-financial goal.

Long-term incentive programs overview for 2018

Under the new Remuneration Policy, Nilfisk implemented in 2018 a new long-term incentive program to certain key employees, selected by the Remuneration Committee, called Nilfisk Performance Share Program (PSP). This Long-Term Incentive Program (LTIP) replaced the previous long-term incentive plans.

When constructing the PSP it is the underlying instrumental consideration of the Board of Directors to ensure full alignment between

shareholder value and value of the PSP. At our Capital Markets Day in September 2017, we communicated mid-term targets for organic growth, EBITDA margin before special items and RoCE. We use a financial forecasting model to predict the probability of realizing these targets, and we convert this into a total shareholder return target that contributes to determining the valuation of the PSP and by that the amount of contingent performance shares available for grant to participants any given year.

In 2018, the participants in the PSP have been granted a number of contingent performance shares that will vest from 2020 depending on the company’s achievement of targets specifically relating to EBITDA margin before special items, RoCE and total shareholder return centered around these mid-term targets. Each of these elements and vesting conditions are further described below.

Under the Remuneration Policy and in the PSP, the Board of Directors has a discretionary right to adjust the incentive program in case of certain extraordinary circumstances to cater for shareholder interests in case of any unforeseen impact on the value of the program.

EBITDA margin before special items

33% of the PSP award is based on Nilfisk’s EBITDA before special items reported at the end of the three-year performance period, which for the 2018 award is the EBITDA before special items reported for the financial year ending December 31, 2020, measured against the following targets, before adjusting for the new financial reporting standard IFRS 16:

- If the EBITDA margin before special items is below 13.1%, the EBITDA element of 33% will not vest
- If the EBITDA margin before special items equals or is above 14.6%, the full amount of the EBITDA element of 33% will vest
- If the EBITDA margin before special items is between 13.1% and 14.6% the EBITDA element of 33% will vest partially

The EBITDA margin before special items is a key performance indicator for the Group directly linked to the Group’s strategy and business plan.

It measures the profitability of the Group relative to revenue and is one of the key figures included in our mid-term financial guidance to the market.

Return on Capital Employed

33% of the LTIP award is based on Nilfisk’s three-year average Return on Capital Employed (RoCE) performance, which for the 2018 award will be the average ROCE performance from 2018 through 2020 measured against the following targets, before adjusting for the new financial reporting standard IFRS 16:

- If RoCE is below 18.2%, the RoCE element of 33% will not vest
- If RoCE equals or is above 22.6%, the full amount of the RoCE element of 33% will vest
- If RoCE is between 18.2% and 22.6% the RoCE element of 33% will vest partially

RoCE is a key performance indicator for the Group directly linked to the Group’s strategy. It measures the profitability and capital efficiency of our business.

Total Shareholder Return

The remaining 33% of the LTIP award is based on Nilfisk’s Total Shareholder Return (TSR) performance, which for the 2018 award will be the average TSR performance from 2018 through 2020 measured against the following targets:

- If TSR is below 4.4% per annum, the TSR element of 33% will not vest
- If TSR equals or is above 13.2% per annum, the full amount of the TSR element of 33% will vest
- If TSR is between 4.4% and 13.2% per annum the TSR element of 33% will vest partially

First year status for 2018 LTIP award allotment

Based on the valuation of the 2018 PSP, the company made a total grant of 53,245 contingent performance shares to members of the Executive Management Board, the Nilfisk Leadership Team, and other selected key employees.

The number of performance shares awarded to each participant is based on a probability adjusted percentage of his/her base salary, also referred to as the “face value”. The actual number of share units granted is calculated by dividing the face value with a fixed share award price, equal to the Volume Weighted Average share Price (VWAP) over the 10 trading days following the release of the Annual Report. For 2018, the VWAP used in the PSP was 305.33 DKK.

Movements in the Nilfisk Performance Share Program – 2018

Number of awarded performance shares	June 2018	Exercised in 2018	December 31, 2018
Hans Henrik Lund	20,496	-	20,496
Karina Deacon	5,431	-	5,431
Nilfisk Leadership Team	19,505	-	19,505
Other key employees	7,813	-	7,813
Total	53,245	-	53,245

Share option program (2013-2016)

In the period 2013 to 2016, the Executive Management Board was granted the right to purchase shares (share options) in Nilfisk Holding A/S at a strike price. Share options were not granted for 2017. Instead a cash compensation representing the value of options at grant was paid to four members of the Nilfisk Leadership Team.

For further information about the share option program, please refer to Note 3.4.

Movements in the share option program – 2018

Number of options	December 31, 2017	Exercised in 2018	December 31, 2018	Market value of exercised options in EUR thousand
Karina Deacon ¹	50,130	-	50,130	-
Lars Gjødsbøl ²	131,436	97,486	33,950	2,274
Total	181,566	97,486	84,080	2,274

¹ Current member of the Executive Management Board

² Current member of the Nilfisk Leadership Team

Phantom share program (2012-2016)

In the period 2012 to 2016 a phantom share program granted a number of employees the right to a potential cash payment but no rights to acquire shares. The program is an alternative to a part of the participants’ bonus under the short-term bonus program.

Movements in the phantom share program – 2018

Number of options	December 31, 2017	Exercised in 2018	December 31, 2018	Market value of exercised options in EUR thousand
Nilfisk Leadership Team (four members)	92,230	28,483	63,747	774



Appendix





Key components in the Remuneration Policy

Component	Governing principles	Maximum award level
Fixed salary	Set in relation to comparable Danish and European companies. Salary is set in the context of the total remuneration package to ensure an appropriate balance between fixed and variable remuneration.	Salary levels take into account market remuneration as well as the executives' skills and experience.
Pension and benefits	Where appropriate, Nilfisk Holding provides competitive pension and benefit arrangements.	Benefits include company car, phone and other benefits in line with market practice. Individual members of the Executive Management Board may also be covered by pension schemes, with details provided in the annual report.
Annual bonus plan	The annual cash bonus plan aligns executive reward with achievement of Nilfisk Holding's short-term objectives, as determined by the corporate strategy. This may consist of financial and/or non-financial targets such as revenue, EBITDA, Return On Capital Employed (ROCE) and/or EBITDA margin and/or key strategic or other non-financial performance indicators. Details of measures used in a given year will be outlined in the annual report as will actual bonus outcomes.	70% of fixed annual salary.
Long-term incentives	<p>Long-term incentives will consist of performance share awards. In any given year, the Executive Management Board may be awarded performance shares. Performance shares represent a conditional right to receive shares after a three-year performance period at nil payment. At this point, the performance shares vest, subject to continuous service and the achievement of performance targets over a period of three financial years.</p> <p>The decision to make awards under a long-term incentive plan is made by the Board of Directors each year after recommendation from the Remuneration Committee. The Board of Directors may at their discretion decide to make cash awards in a given year instead of making awards of performance shares.</p> <p>The performance measures applying to performance shares will represent key measures of long-term growth and will be disclosed in the annual report. These measures will ensure alignment of vesting outcomes with the long-term performance of the company.</p> <p>Vesting will be subject to customary good leaver/bad leaver provisions.</p> <p>No performance share award will normally vest before the end of the three-year performance period. However, the Board may decide that awards may be subject to early vesting and exercise in various situations including (but not limited to) for certain corporate events such as a change of control.</p> <p>The Board of Directors has a discretionary right to decide to make cash settlement at vesting instead of delivering shares. Nilfisk Holding may, on an ongoing basis, cover any performance share rights granted through the issue of new shares and/or a buyback of own shares and/or the use of own shares in accordance with the Articles of Association of the company as adopted from time to time or resolutions by Nilfisk Holding's shareholders.</p>	<p>The maximum value of performance share awards that can be made in any financial year, based on face value, is 100% of the participant's fixed annual salary as of the date of award.</p> <p>The value at vesting will depend on the share price at the time of vesting and the number of performance shares vesting based on achievement against performance targets.</p> <p>However, the value at vesting in respect of each individual in respect of each award, cannot exceed three times the participant's fixed annual salary as of the time of award. In such cases where this cap is applied the number of shares vesting will be reduced accordingly.</p>



Other key components in the Remuneration Policy

Component	Governing principles
Reclaiming variable pay	In the event of misconduct, or if an annual bonus or long-term incentive award is made on the basis of accounts that prove to be materially misstated, the Company may reclaim, in full or in part, any overpayment from the annual bonus, or cancel or withdraw unvested and/or vested long-term incentive awards made to the Executive Management Board.
Notice period and severance pay	The total value of the remuneration during the period of notice for the members of the Executive Management Board, including severance pay, may not exceed 24 months remuneration, including all components of remuneration.
Award of extraordinary incentive remuneration	<p>The Board of Directors is authorized, in individual cases, to operate extraordinary bonus or other extraordinary incentive remuneration in respect of recruitment to the Executive Management Board. The value of such extraordinary incentive remuneration may not exceed an amount equal to 100% of the individual's base salary for the full calendar year. This amount is exclusive of any remuneration the Board deems appropriate in order to compensate an individual for loss of incentive remuneration from a former employer.</p> <p>Any extraordinary incentive remuneration may consist of cash and/or share-based remuneration with any associated performance targets or vesting determined by the Board of Directors.</p>



Nilfisk Holding A/S
Company reg. no. 38 99 88 70
Kornmarksvej 1
DK-2605 Brøndby, Denmark