

Evaluating Pay for Performance Alignment

Implementing a P4P model for Europe

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- Expansion of the European P4P coverage from STOXX600 to STOXX600 and the main European local market indices including the UK FTSE All-Share (ex-investment trusts)
- Pay benchmarking peers selected by the company will be considered for the peer group construction process.

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EXECUTIVE SUMMARY

In 2016, ISS introduced for the first time a quantitative pay-for-performance (P4P) assessment for the largest European companies. We have sought to leverage the common features of the ISS pay-for-performance models implemented in the [US](#) and Canada where appropriate. In addition, the approach has been adapted as necessary to fit the European context, notably in relation to the construction of peer groups and the pay calculation methodology.

In 2017, the European peer group approach we have chosen will differ from that used in our US and Canadian models in one key way: by adopting a banded approach to market pay levels for the European model. With the 2016 introduction of the European P4P, the European approach solely used ISS-selected peers. Based on feedback from both investors and issuers, the European model will also use company-selected peers as part of the peer group construction process. Additionally, the pay methodology is based on realised pay, while the US and Canadian models use granted pay. The rationale for these differences is explained in more detail later in this document.

For ISS benchmark voting guidelines, assessment of remuneration for European (including UK & Irish) companies follows the ISS Global Principles on Executive and Director Compensation as detailed below:

1. Provide shareholders with clear, comprehensive compensation disclosures;
2. Maintain appropriate pay-for-performance alignment with emphasis on long-term shareholder value;
3. Avoid arrangements that risk “pay for failure;”
4. Maintain an independent and effective compensation committee;
5. Avoid inappropriate pay to non-executive directors.

The ISS European pay-for-performance model provides quantitative elements, which consider both relative P4P alignment compared with peer groups and absolute P4P alignment. The methodology is described in this paper, and, like our P4P methodology for US and Canada, it incorporates models for RDA (Relative Degree of Alignment,) MOM (Multiple of Median) and PTA (Pay-TSR Alignment).

It is important to emphasise that the addition of the European pay-for-performance model to ISS benchmark research reports will be additive and is intended to provide additional data points for comparability. Therefore, while the P4P model is based on realised pay, the additional qualitative review by ISS research analysts will continue to take into account both the granted and realised elements of remuneration during the year under review. The qualitative factors that ISS also considers in its holistic analysis of pay in each specific market or region are discussed in the separate ISS European and United Kingdom & Ireland benchmark policies.

The European P4P coverage universe will expand for 2017 and will entail STOXX600 and the main European local market indices including the UK FTSE All-Share (ex-investment trusts).

Further information will be available from the ISS P4P helpdesk, which should be contacted in the first instance for any queries. The Helpdesk can be contacted using the following email address: EuropeanP4PSupport@issgovernance.com.

INTRODUCTION

The current ISS pay-for-performance (P4P) model for the US was launched in 2012, and was implemented for Canada in 2013. Feedback from institutional investors has identified significant interest in a quantitative pay-for-performance

model for Europe. The 2014 ISS Policy Survey noted that 83 percent of investors who responded indicated that they supported the development of a European pay for performance quantitative methodology, including the use of peer group comparisons.

However, ISS recognises that remuneration disclosures across the various European markets are more diverse than in the single markets of US and Canada, and that there are certain local market practices which mean that elements of the US and Canadian quantitative methodologies need to be adapted to be appropriate for the European context. Two particular challenges within the European context are (1) most pay disclosure practices are market-specific, and (2) there has been significant evolution of different and often varying market practices in recent years. These challenges have been addressed as part of the development of the model.

The purpose of ISS' pay-for-performance evaluation is to measure the alignment between pay and performance over a sustained period. ISS' P4P quantitative assessment is designed to measure such alignments, based on both relative and absolute pay-performance evaluations.

The ISS P4P quantitative methodology delivers a common, global approach

The quantitative methodology utilises two components:

- › **A relative evaluation** – rankings of CEO pay and performance relative to peer companies.
- › **An absolute evaluation** – CEO pay relative to shareholder return for the subject company.

Both are considered from an investor's perspective in evaluating the efficacy of top executive pay packages over time. For the relative evaluation, peer groups are designed not for pay benchmarking or stock-picking but rather to compare pay and company performance within a group of companies that are reasonably similar in terms of industry profile and size.

The evaluation focuses on the realised pay for the lead executive, typically the CEO, for the period under consideration, although it is important to note that the three different models measure pay over three different time periods (typically one, three and five years for the MOM, RDA and PTA models respectively.) To keep things simple, for the rest of the document, we will refer to this as total CEO pay, as this is what has been analysed in the vast majority of cases.

What We Measure -- Pay

All figures in the European P4P model are based on realised (i.e. vested) not granted pay. The CEO's total remuneration includes the cash and benefit values actually paid, and the value of any amounts "realised" (i.e. exercised or earned due to satisfaction of performance goals) from incentive grants made during a specified measurement period, based on their value at the end of the measurement period.

This is one area where the European implementation differs from our US and Canadian approach, which uses a granted pay definition. During the development of the model, the ISS European research team reviewed how pay is typically disclosed in each market and the outcome was that a model based on realised pay was determined to fit better with the general direction of pan-European market practice; this conclusion was subsequently tested and verified with a number of our institutional investor clients during the model development phase.

One example of the trend towards looking at realised pay rather than granted pay, is the Deutscher Corporate Governance Kodex, the German Corporate Governance Code, which in its 2013 version added a recommendation that

listed companies disclose management board pay both on a realised basis and on a granted basis (previously pay disclosure was generally recommended without specific guidelines, leading the majority of companies to disclose granted pay data only.). Another example is the introduction of the UK Single Total Figure table, which was brought in for large and medium-sized companies in 2013, and requires the following disclosure¹:

The annual remuneration report must include a table showing the single total figure of remuneration for each director for the reported year and the financial year before that. The company may disclose the information for executive and non-executive directors in separate tables.

The table must include, for each of the two years, a total figure and show the breakdown of that figure by disclosing figures for distinct components including: base salary; taxable benefits; short-term incentives (including percentage deferred); long-term incentives vested in the year; pension related benefits; any other items in the nature of remuneration and any sum recovered or withheld during the year in respect of amounts paid in earlier years.

The table may also include such other information as the directors determine. Where any discretion has been exercised in respect of a short-term or long-term incentive that vested in the reported year, details of how the discretion was exercised and how the level of award was determined must be given.

It is important to note that the qualitative review undertaken by ISS research analysts in ISS proxy voting reports will continue to take into account both granted pay and realised pay. Both views of remuneration practices are valuable to institutional investors, as they answer fundamentally different questions which are forward-looking (granted) and retrospective (realised) in nature.

Calculating a European single total pay figure

The European P4P model calculates a single total figure based on the CEO's realised pay for the year under review.

Where a suitable single realised pay figure is not available from the current company disclosures, ISS has created a model single total figure based on knowledge of local market practices. In certain markets where the standard is still to report only granted pay values, the local ISS Research teams are involved in identifying consistent handling rules to create consistent realised pay figures for the year under review. Where company disclosure is considered too limited to permit this, a company may be excluded from the model for poor disclosure.

If a company wishes to see how its total pay figure was calculated, it can request this information from the ISS P4P helpdesk via EuropeanP4PSupport@issgovernance.com.

In the markets covered by ISS European policy² the pay components which contribute towards the overall single figure for total CEO remuneration are listed in the table below, with a discussion of how each item is interpreted.

Figure 1. Elements of pay in the continental markets

¹ As referred to on Page 8 of the GC100 and Investor Group Directors' Remuneration Reporting Guidance 2013

² Austria, Belgium, Denmark, France, Finland, Germany, Greece, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden and Switzerland

Item	Commentary
Base salary	The annual base salary received for the last financial year, as reported in the emoluments table (or equivalent) in the financial statements.
Perquisites	The cost or estimated value of other benefits, for example, private health insurance.
Pension	The 'pension costs' for the last financial year, as reported in the emoluments table (or equivalent).
All other compensation	All other compensation is a category which can be used for payments that do not fit into any other category, for example, severance pay.
Cash bonus	Bonus earned for the last financial year as reported in the emoluments table (or equivalent) in the financial statements, or otherwise disclosed.
Deferred/share bonus	The portion of the annual bonus that has been earned and will be deferred, assuming that the deferred portion is not subject to any further performance conditions, other than continued employment. In addition, payments from previous bonus deferrals should be included, in case these have been subject to performance conditions.
Non-equity incentives	Non-equity incentives refer to cash-settled LTIPs.
Restricted stock	Share-based payments should reflect the value of share awards vesting over the prior year (so "realised" or take-home equity-based pay). If it concerns non-performance based stock awards, the value at grant date will be used.
Options	This includes both take-home pay from non-performance-based as well as performance-based stock options vesting during the year (or potentially exercised). Options will be valued using intrinsic value (exercise price minus market price) because changes in the fair value of the award after vesting generally reflect investment decisions made by the executive rather than remuneration decisions made by the company.

For the UK, the figure for total CEO remuneration uses the single total figure disclosed by the company, and many of the largest Irish and Jersey companies tend to use the UK single total figure disclosure format. For the small number of companies who do not, a "synthetic" single total figure has been calculated from the individual remuneration elements as in the European example.

Exclusions for poor disclosure practices

All subject companies underwent a data quality review after the data available had been collected by ISS from the company materials, to ensure that the overall pay figure could be calculated in a consistent fashion for all companies in a market. For the European P4P model to produce a valid and relevant output, the model requires at least three years of pay disclosure. As part of this review, a minority of subject companies were found to have such poor disclosure practices that they could not be included in the model. The companies which were excluded were from a variety of markets and sectors, and the review concluded that these exclusions were largely due to company-specific inadequate disclosure practice rather than such poor disclosure being typical of a specific market or sector.

What We Measure -- Performance

There are, of course, myriad ways to measure corporate performance, and key metrics may vary considerably from industry to industry and from company to company depending on their particular business strategy at any given time. Investors expect that incentive plan metrics will stem from that strategy and be designed to motivate the behavior and executive decisions that will lead to its successful execution, but the one key common measure for investors in the context of a long-term pay-for-performance evaluation is total shareholder return (TSR).

We would note that this does not imply that ISS advocates for companies using TSR as the single metric underlying their incentive programs; many companies and shareholders may prefer that incentive awards be tied to the company's

business goals more broadly than TSR. However, if a company's business strategy is sound and well executed, the expectation is that it will create value for shareowners over time, and this will generally be reflected in long-term total shareholder returns. TSR is therefore the primary measure used in ISS' quantitative pay-for-performance alignment models. Various other financial and operational metrics are also considered when company practices and remuneration decisions are analysed as part of the qualitative review undertaken for ISS proxy research reports.

The TSR data used in the European pay-for-performance model is provided by the same data vendor (S&P/Compustat XpressFeed) using the same TSR methodology (S&P's standard TSR methodology) as the TSR data already included in the ISS proxy research reports.

What We Measure -- Relative and Absolute Alignment Over Time

In 2011, a substantial majority of institutional investor respondents to ISS' policy survey confirmed two factors as important in determining pay-for-performance alignment: pay relative to peers (considered very relevant by 62 percent of investor respondents), and pay increases that are disproportionate to the company's performance trend (considered very relevant by 88 percent of investor respondents). A majority of company (issuer) respondents also indicated these factors as at least somewhat relevant to a pay-for-performance evaluation.

In light of this and similar feedback from roundtables and other discussions forums ISS incorporated both perspectives into the quantitative component of its pay-for-performance analysis when developing the US pay-for-performance approach which was launched in 2012. This ensures a balanced evaluation from both relative and absolute pay-for-performance perspectives.

ISS' QUANTITATIVE EVALUATION OF PAY-FOR-PERFORMANCE ALIGNMENT

Measures of Pay-for-Performance Alignment

At the core of the quantitative methodology are three measures of alignment between executive pay and company performance: two *relative* measures where a company's pay-for-performance alignment is evaluated in reference to a group of comparable companies, and one *absolute* measure, where alignment is evaluated independently of other companies' performance.

The three measures are:

- › **Relative Degree of Alignment.** This relative measure compares the percentile ranks of a company's CEO pay and TSR performance, relative to an industry-and-size derived comparison group, over a three-year period.
- › **Multiple of Median.** This relative measure expresses the prior year's CEO pay as a multiple of the median pay of its comparison group for the same period.
- › **Pay-TSR Alignment.** This absolute measure compares the trends of the CEO's annual pay and the value of an investment in the company over the prior five-year period.

Measures of Relative Alignment

Relative Degree of Alignment (RDA)

This measure addresses the question: Is the pay the CEO has received for the period under review commensurate with the performance achieved by the company in the same period, relative to a comparable group? The measure compares the percentile ranks of a company's CEO pay and TSR performance, relative to a comparison group of 12-24 companies selected by ISS on the basis of size and industry over a three-year period.

To determine this measure, the subject company's percentile ranks for pay and performance are calculated for the three-year period. Because of the sensitivity of TSR to overall market performance, annualised TSR performance for all companies will be measured for the same period.

Combined percentile ranks for pay and for performance are calculated, and the Relative Degree of Alignment is equal to the difference between the ranks: the combined performance rank minus the combined pay rank.

Figure 2. Example of calculating RDA score

	Performance %ile Rank	Pay %ile Rank	Difference
3-Year	32	59	-27

Values for the Relative Degree of Alignment measure range between -100 and +100, with -100 representing the high pay for low performance (i.e., 100th percentile pay combined with 0th percentile performance), zero representing a high degree of alignment (the pay rank is equal to the performance rank), and positive values representing high performance for low pay.

If a subject company does not have 3 years' worth of data, then RDA will be run in either 2 or 1 year scope, depending on the number of years of data the subject company has available and the trading history of the company. For companies with a trading history of three years or more, a minimum of three years of pay data is required for the company to be included in the model.

Multiple of Median (MOM)

This measure addresses the question: Was the CEO paid significantly more in the last year than his or her peers in the comparison group? To calculate this measure, the company's one-year CEO pay is divided by the median pay for the comparison group.

Measure of Absolute Alignment

The absolute alignment test is intended to compare pay and TSR trends to determine whether shareholders' and executives' experiences are directionally aligned.

Pay-TSR Alignment (PTA)

PTA is a long-term measure of directional alignment. It is important to note that it is not designed to measure the sensitivity of CEO pay to performance – i.e. whether pay and performance go up and down together on a year-over-year basis.

The measure is calculated as the difference between the slopes of weighted linear regressions for pay and for shareholder returns over a five-year period. This difference indicates the degree to which CEO pay has changed more or less rapidly than shareholder returns over that period. For technical information on how the regressions are calculated,

please see Appendix II of the November 2014 edition of the white paper which describes the US pay-for-performance approach, “Evaluating Pay for Performance Alignment.”

The trend lines calculated by these regressions are analogous to a 5-year “trend rate” for pay and performance, weighted to reflect recent history. The final Pay-TSR Alignment measure is simply equal to the difference: performance slope minus the pay slope.

THE EUROPEAN APPROACH TO PEER GROUP CONSTRUCTION

The peer groups approach for the European pay-for-performance model differs from that used in the ISS US and Canadian models by adopting a banded approach to market pay levels for the European model. In 2017 ISS is also introducing the company-selected peer methodology to European peer group construction.

ISS' methodology for selecting peers maintains a focus on identifying companies that are reasonably similar to the subject company in terms of industry profile, size, and market capitalization, taking into account a company's self-selected peers to guide industry selections.

Number of peers

As in the US model, the European model typically has a minimum of 12 peers and a maximum of 24 peers.

Remuneration data and Industry classification

ISS' remuneration data sample covers about 1,800 European companies' total remuneration in the past 3 to 5 years. All monetary amounts are in or converted to million euros. The industry classification used is the GICS³ code, which is a four-tiered, hierarchical industry classification system consisting of 10 sectors (GICS 2), 24 industry groups (GICS 4), 67 industries (GICS 6) and 156 sub-industries (GICS 8). Each company has a GICS 8 code based on its principal line of business activity.

How size is calculated

The European P4P model shares the current methodology taken from the US model as described in the US Pay-for-Performance white paper. The majority of industry sectors use revenues as an indicator of size. However, certain industry sectors use market capitalization (market cap) or assets on the balance sheet. The decision tree within the algorithm has been implemented as follows:

- › **Revenues:** If subject company is not in the GICS codes below, use revenues to compare for company size
- › **Assets:** If subject company is in the GICS codes below, then qualify all peers within these asset-based GICS using assets, but qualify all peers outside the asset-based GICS using revenues
 - › 40101010 Commercial Banks
 - › 40101015 Regional Banks
 - › 40102010 Thrifts + mortgage
 - › 40202010 Consumer Finance
 - › 40201020 Other diversified
- › **Market cap:** If subject company is in the GICS codes below, only the market cap test is used to qualify a peer
 - › 10102010 Integrated Oil & Gas
 - › 10102020 Oil & Gas Exploration & Production
 - › 10102030 Oil & Gas Refining & Marketing
 - › 10102040 Oil & Gas Storage & Transportation
 - › 10102050 Coal & Consumable Fuels

³ <https://www.msci.com/gics>

Both subject and potential peer must be in the asset-based GICS groups listed above in order to be compared on the basis of assets. In cases where a subject company is in one of the asset-based GICS groups and a potential peer is not, revenues will be used for size comparisons. This principle applies to the size comparisons made to qualify a peer for potential inclusion as a peer, to the size rankings made to maintain the subject company near the median size of the peer group, and to the size prioritisation of peers.

If a company wishes to understand how its size was calculated, it can request this information from the ISS P4P helpdesk via EuropeanP4PSupport@issgovernance.com.

Peer group construction

The ISS US methodology benchmarks "similar" companies by the two important explanatory factors of executive remuneration in the US: size and industry, which has been confirmed by empirical data, using common regression analysis.

The European situation is similar to US but adds a new dimension: "country," where empirical remuneration data concludes that size, country, and industry are the three significant explanatory factors. This means that, in the European context, the ISS methodology extends the view of benchmarking similar companies from "size/industry" to "size/industry and countries of similar pay level".

If a company does not agree with the peers which have been allocated by the model, or considers they have been wrongly allocated, it can provide this feedback to the ISS P4P helpdesk via EuropeanP4PSupport@issgovernance.com.

Country bands

ISS incorporates the view of "countries of similar pay level" through the concept of "bands" and by grouping into the same band countries that show similar country-level remuneration, after controlling for size and industry. The inclusion of this additional consideration, "band", allows the methodology to remove as far as possible the undesirable biases that can occur when companies from very different band(s) are used for benchmarking purposes.

More precisely, the ISS European P4P methodology incorporates "band" consideration to remove such undesirable bias at two stages:

- › **Stage 1:** The methodology benchmarks a subject company to peers from the same/similar band(s) whenever possible.
- › **Stage 2:** The methodology further compares a subject company's P4P result to all subject companies' P4P outcomes in the same band to eliminate systematic band-specific bias not removed in the prior step.

In other words, stage 1 is reflected in the ISS peer selection methodology. Stage 2 is reflected in ISS' view of P4P outcome = "LOW/MEDIUM/HIGH" concern, which is set up at a per-band basis in the European context.

When grouping countries into bands, ISS considers the following:

- › Views from the regression-adjusted analyses of ISS' European remuneration data that present country-level remuneration (by median and average, and by other versions of regression analyses commonly adopted).
- › Views from feedback from institutional investors.

The constituents of the country bands are shown below. The membership of each band can be adjusted, although there are no current plans to do so, in order that a country could move between different bands to reflect changes in market practice over time. It is anticipated that the placing of countries within bands will be reviewed annually.

Figure 3. Constituents of country bands

Band	A	B	C	D
Constituents	UK	Germany	Belgium	Austria
	Ireland	Switzerland	France	Denmark
	Jersey		Italy	Finland
			Netherlands	Greece
			Sweden	Luxembourg
			Spain	Norway
				Portugal

The country bands were constructed based on the testing of the data used by the model to identify country groupings around quantum of total CEO pay, adjusted for average company size. They were also discussed with a number of institutional investor clients during the model development phase to check that the company placings were in line with expectations.

Company-disclosed peers

In the US and Canada, companies include their chosen peers for benchmarking purposes in their disclosed meeting materials. In Europe, it is still very rare to see companies systematically including self-selected peers in the annual report or other materials, with the exception of some larger companies in certain markets.

As this is not a widespread practice in all European markets, the decision was made for 2016 season to only use ISS-selected peers in the European pay-for-performance model. Following market feedback from both institutional investors as well as corporate issuers, in 2017 ISS is introducing the company-selected peer methodology to the European P4P. Although disclosure remains limited (i.e., the level of disclosure is approximately 6% of the 2017 coverage universe), disclosure of peers is encouraged as a best-practice and could be considered an encouragement.

Peers selected or disclosed by the company will be taken into account for the purpose of guiding the industry selection. The GICS-codes assigned to the company-selected peers will guide the selection process to more company-alike peers. However, while the methodology does place a priority on the company's own peer selections, there are a number of reasons why a company-selected peer may not appear in the final ISS list, even if it meets the relevant size (revenue or assets and market capitalization) parameters. As noted above, the methodology also places priority on other factors as it builds the peer group:

The company's own 8-digit GICS category

- Maintaining the subject company size at or near the median of its peer group

- Maintaining the approximate distribution of GICS industry codes as reflected in the company's self-selected peer group

At times, including a company's self-selected peer may push the subject company away from the median, or lead to an overrepresentation of that industry within the final peer group. In these cases the company's self-selected peer may not be included. In addition, if a company's self-selected peer is the only peer company in its 6- and 8-digit GICS category, that industry grouping will not be utilized in the peer selection process (since the company may have selected that peer solely due to geographic proximity, for example).

In case multiple seed peers qualify for the same group, priority in the selection process is given to the seed peers the subject has chosen in its own peer group and the distance in size (by the appropriate revenue or asset size comparison) between the subject and seed peer. Because the disclosure of company selected peers remains limited in Europe (i.e. the level of disclosure is approximately 6% of the 2017 coverage universe) and is concentrated in a few markets, the selection process does not look at counter references (i.e. whether the seed peer has chosen the subject company as a peer or the number of peer selections among the seed peer and the subject company's peers and the companies that have chosen the subject as a peer) in order to avoid significant bias.

ISS uses the company-selected peers that are used for CEO pay benchmarking purposes.

In December, ISS provides companies a "peer update" opportunity to communicate changes made to their benchmarking peer groups following their most recent proxy disclosures. During the update process, companies can inform ISS of updates to the peer groups they used to benchmark executive compensation that will be reported in their upcoming proxy statements (not to benchmark the upcoming year's pay). Companies that do not participate in the ISS peer update process will have their most recently disclosed compensation peers used in the ISS peer group construction process for the following year's ISS benchmark research analysis.

NOTES ON IMPLEMENTATION

It is important to emphasise the addition of the European pay-for-performance model to the ISS benchmark research reports will be additive and is intended to provide our clients with additional data points for comparability. Also, while the model is based on realised pay, the qualitative reviews by ISS research analysts will continue to take into account both the granted and realised elements of remuneration during the year under review, as appropriate.

The rest of this section will discuss how the pay-for-performance charts are presented in the ISS benchmark research reports, and how frequently the model will be updated.

Presentation within the research reports

The relevant ISS European proxy research reports for the companies included in the European P4P model include the pay-for-performance graphs for the three tests RDA, MOM, and PTA. The peers used in the model are identified, as is the overall level of concern. .

Within the ISS research reports:

- › **The Relative Alignment (RDA)** chart compares the performance and pay rankings of the subject company and its peers over (typically) three years.
- › **The Magnitude of Pay (MOM)** chart shows the CEO pay for the most recent year compared with that of its peers.
- › **The Absolute Alignment (PTA)** chart compares the subject company's CEO pay with indexed TSR over (typically) five years.
- › **The Pay-For-Performance Quantitative Screen** summarises the overall level of concern.

The pay-for-performance model in the research reports includes three main sections of content.

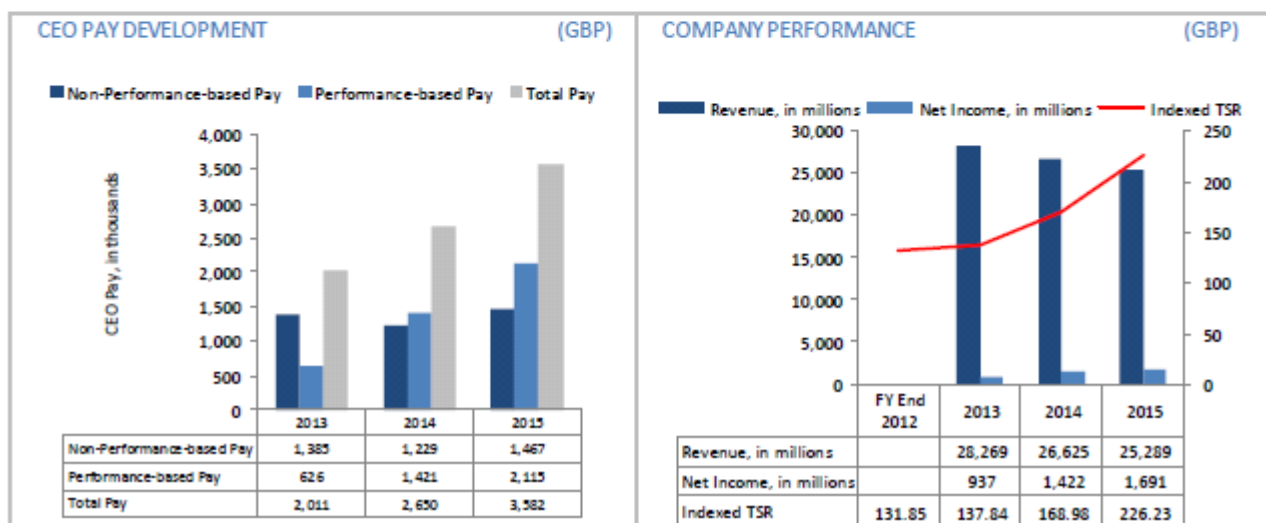
The first section includes the components of pay table. This table, which contains realised pay, is included to illustrate how the total pay number was reached. The bar chart under the table to the left shows the split between variable and fixed pay for the CEO the most recent three financial years. The second bar chart displays company performance over the same period measured in revenue, net income and indexed TSR.

Figure 4. Remuneration Profile – Components of Pay

Remuneration Profile

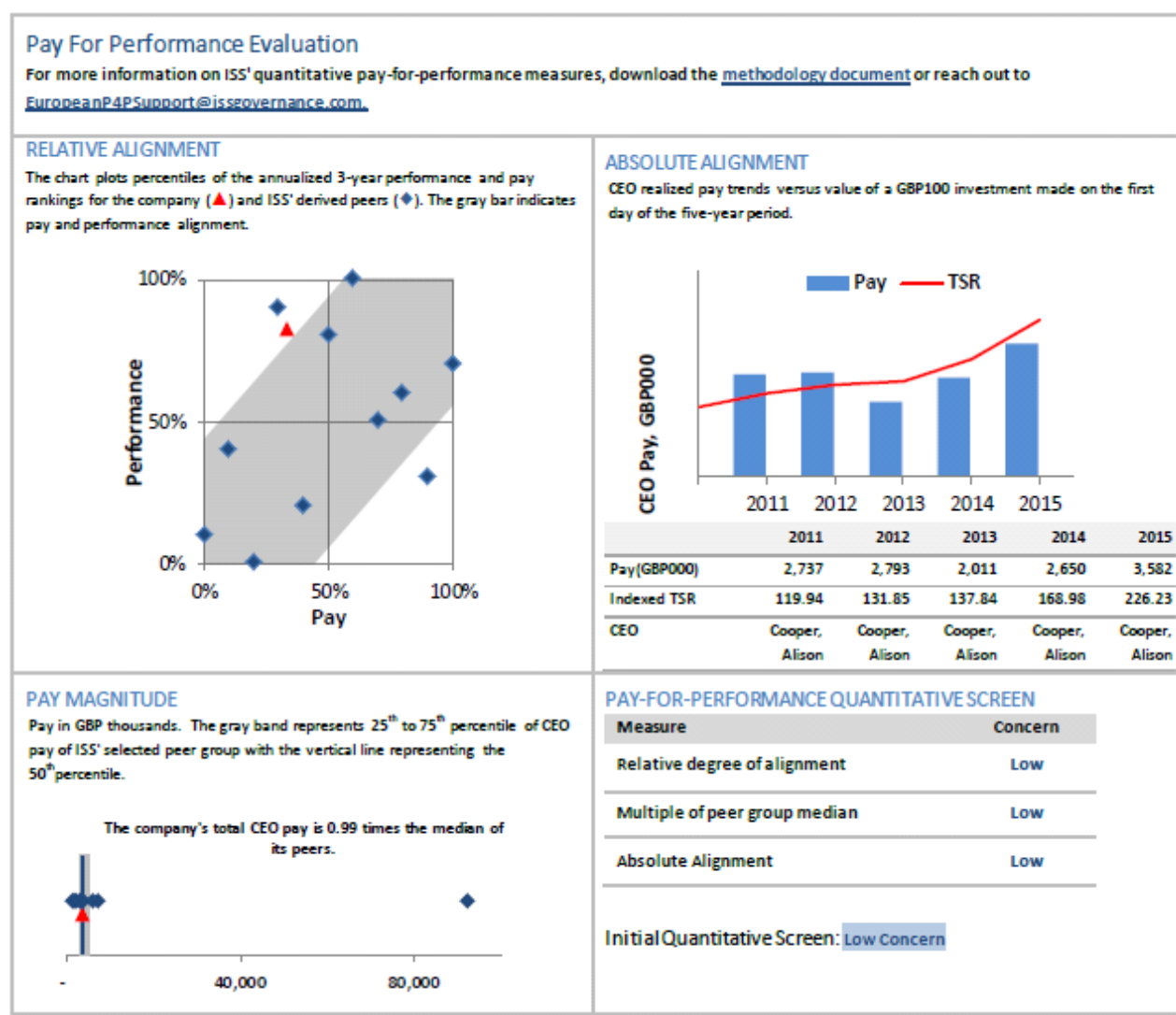
COMPONENTS OF PAY					
GBP in thousands					
	CEO				CEO Peer Median
	Cooper, Alison		Cooper, Alison		
	2015	Change	2014	2013	2015
Base salary	965	+4.9%	920	920	893
Perquisites	16	-	16	16	27
Pension	480	+63.8%	293	449	222
All other compensation	6	-	-	-	188
Cash Bonus	772	-39.2%	1,270	626	776
Deferred Bonus	772	-	-	-	229
Total short-term incentives	1,544	+21.6%	1,270	626	776
Non-equity incentives	-	-	-	-	0
Restricted stock	571	+278.1%	151	0	766
Options	-	-	-	-	0
Total long-term incentives	571	+278.1%	151	0	1,452
Total	3,582	+35.2%	2,650	2,011	3,617
% of Net Income	0.21%		0.19%	0.21%	
% of Revenue	0.01%		0.01%	0.01%	

Figures above refer to realized pay and may significantly differ from issuer-reported figures.



The second section is the Pay for Performance Evaluation, which includes the charts and the list of peers. The quantitative screen details the overall level of concern for each of the three models, and the initial Quantitative Screen displays the overall level of concern.

Figure 5. Pay for Performance Evaluation



The third section is new in 2017. Similar as in the US, the European research reports will also contain the relevant table and graph on peers disclosed by the company. The table will provide information on the names of the peers selected by ISS model, the peers selected by the company, and any overlap that exists. The graph on the right would give further details on the size of the peers selected by ISS model and the company and provides the relative size (the subject indexed at 100%) of the peers.



Model updates

The coverage universe for the model in 2016 was the STOXX Europe 600, which will be expanded in 2017 to STOXX Europe 600 and local main indices. The coverage universe is set and updated once per year based on the companies forming part of the index groups outlined below. The expanded coverage will mirror ISS' Governance QualityScore Universe.

Country	Index
European	STOXX-600
United Kingdom	FTSE All-Share (ex-investment trusts)
Ireland	ISEQ 20
France	Widely held companies within the CAC All tradable
Belgium	BEL 20
Netherlands	AEX25/AMX25
Luxembourg	LuxX
Denmark	OMX Copenhagen 20
Norway	OBX
Sweden	OMX Stockholm 30
Finland	OMX Helsinki 25
Italy	FTSE-MIB / FTSE-Midcap
Spain	IBEX 35
Portugal	PSI 20

Greece	FTSE ATHEX Large Cap Index 25
Germany	DAX30/MDAX50/SDAX 50/TecDAX
Switzerland	SMI 20/SMIM 30
Austria	ATX 20

Use in ISS QualityScore

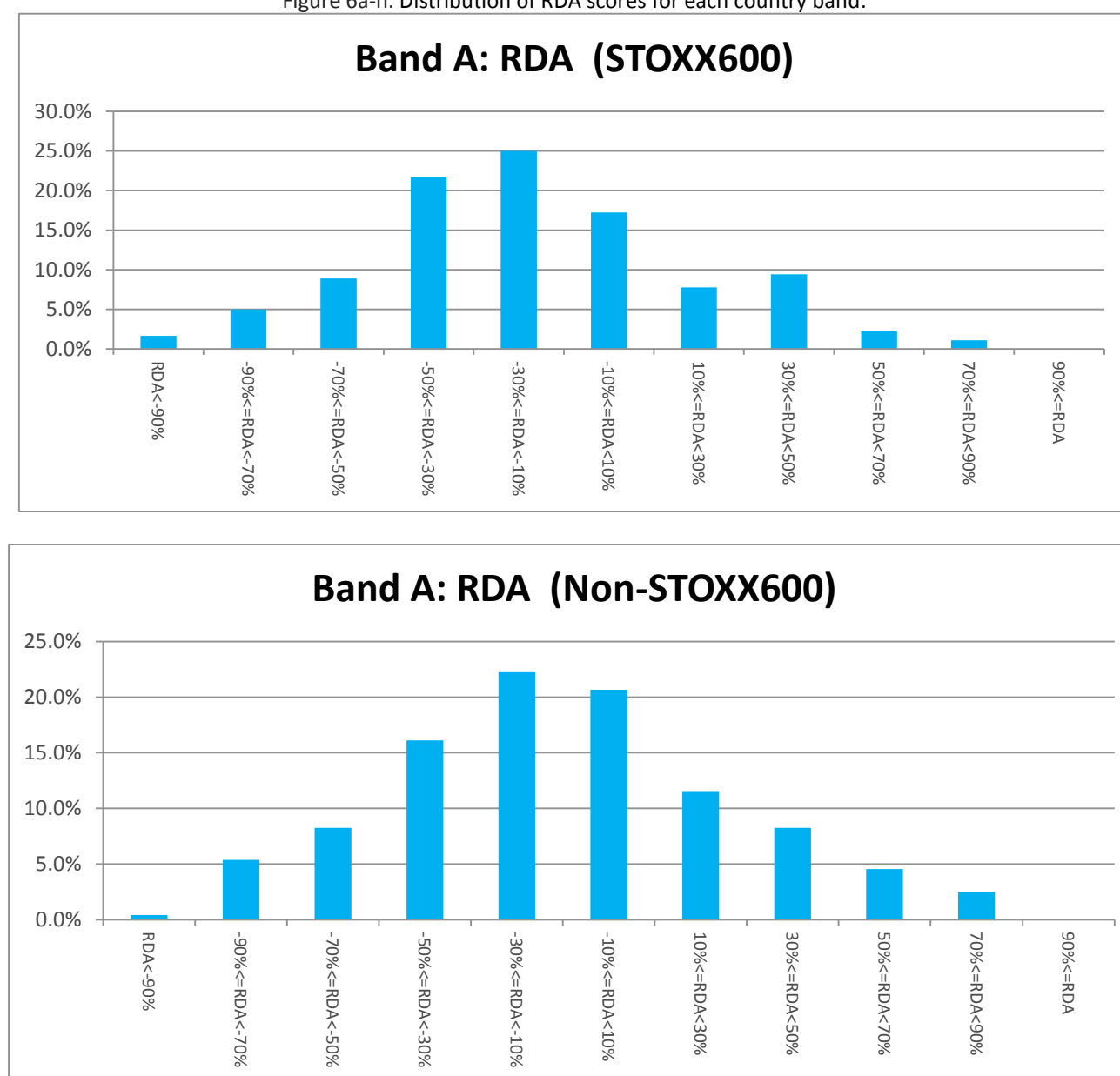
As of the 2017 policy year, pay-for-performance factors are now a part of the Remuneration Pillar in ISS QualityScore and will reference the pay-for-performance results from the Relative Degree of Alignment (RDA), Multiple of Median (MOM), and Pay-TSR Alignment (PTA) tests that can be viewed on each company's research report. For the first year, these factors are included in ISS QualityScore for reference only. For newly covered companies, the pay-for-performance questions will only apply after the next research report is published for these companies and where a pay-for-performance analysis is included.

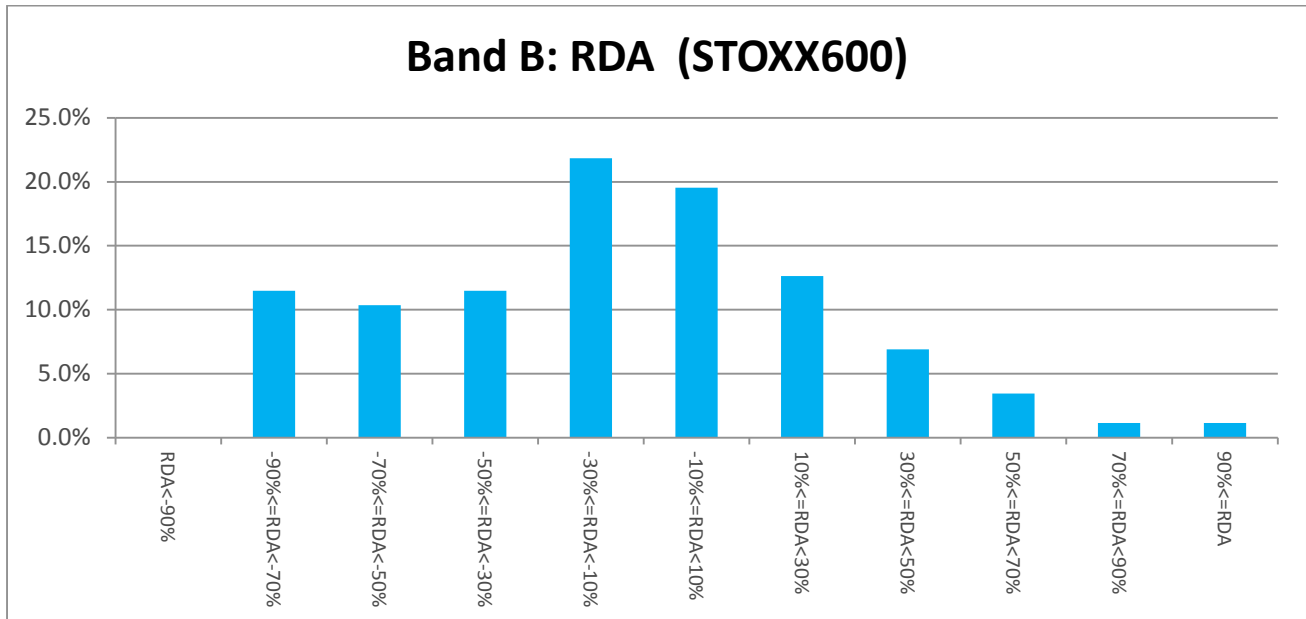
APPENDIX: BACK-TESTING THE MODEL

The distribution of scores has been tested for the three models, RDA, MOM and PTA, by band and was broadly in line with that seen for the North American models, although due to the smaller sample size in the European model, the slope of the distribution was less smooth. Following the expansion of the coverage universe to companies on local main indices but not included in the STOXX600 index, the distributions of the model scores were substantially different. We have therefore separate the distribution of scores between companies that are included in the STOXX600 index and companies that are not included in the STOXX600 index but are included in the expanded European P4P coverage.

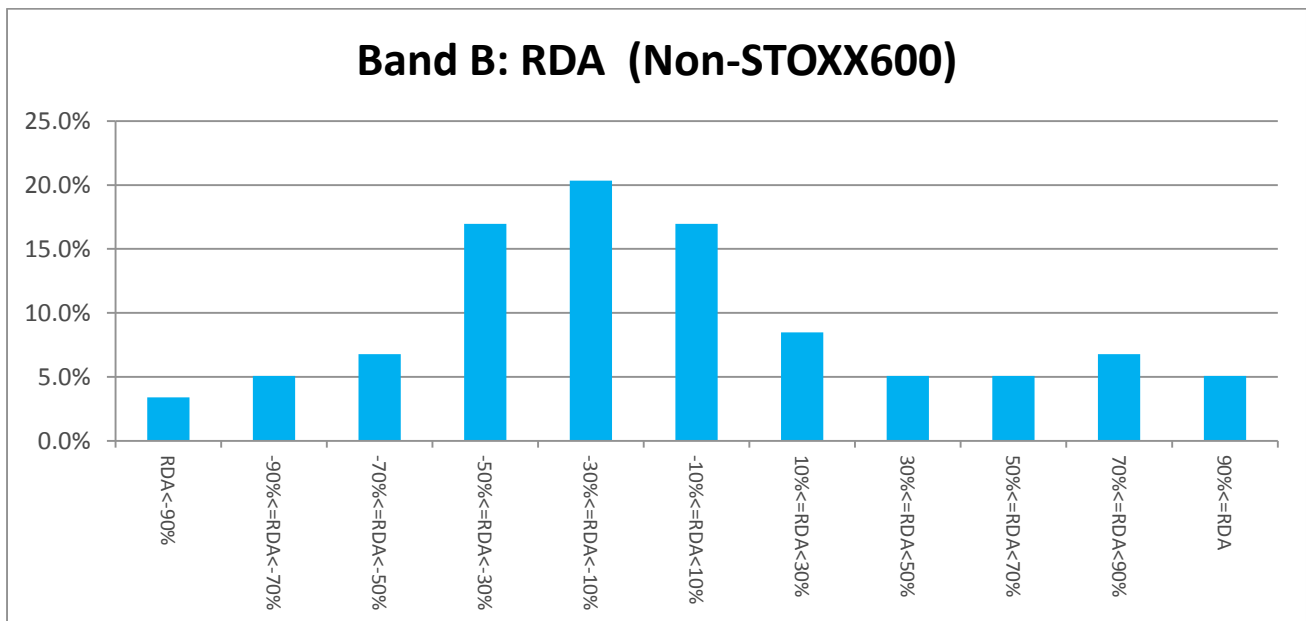
Relative Degree of Alignment

Figure 6a-h. Distribution of RDA scores for each country band.

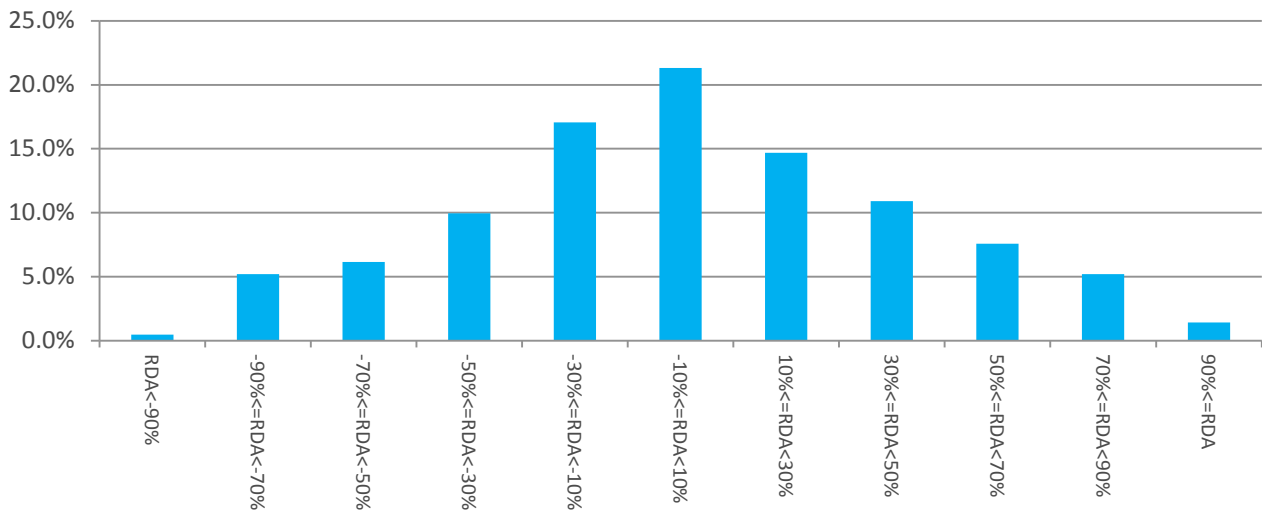
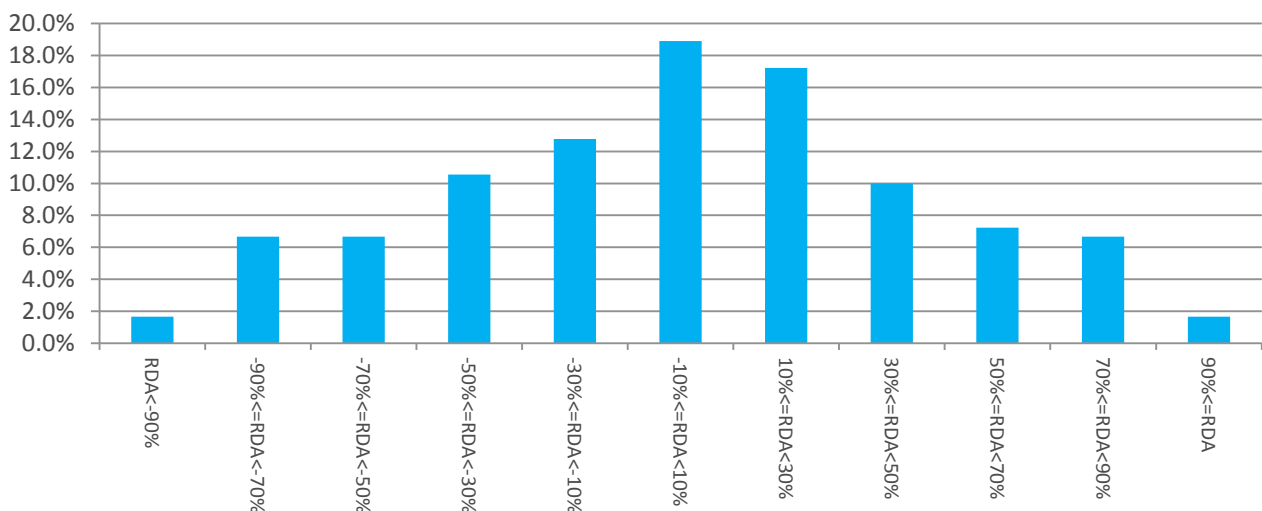


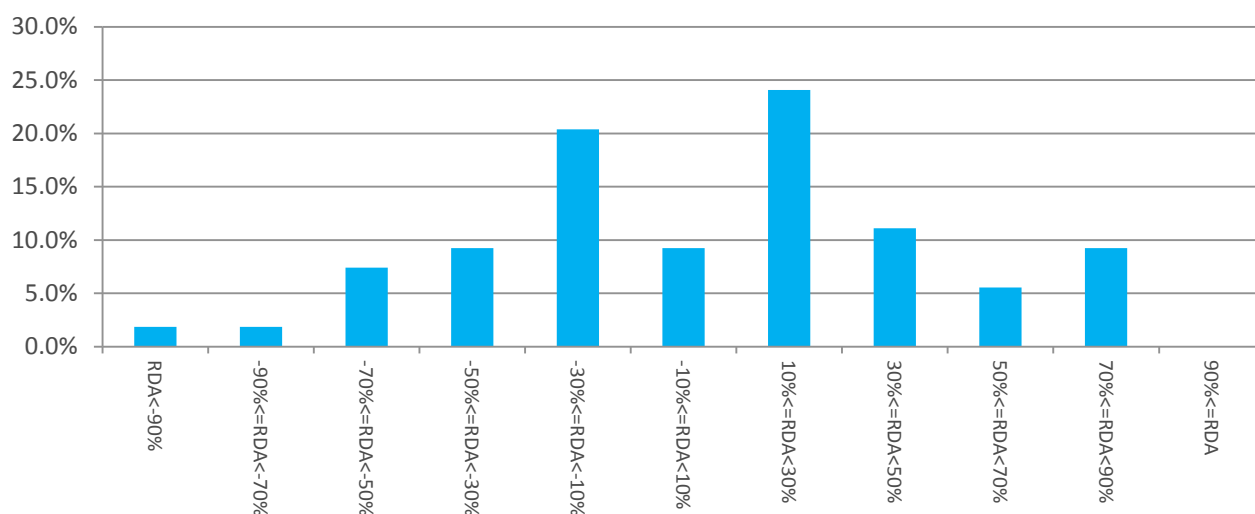
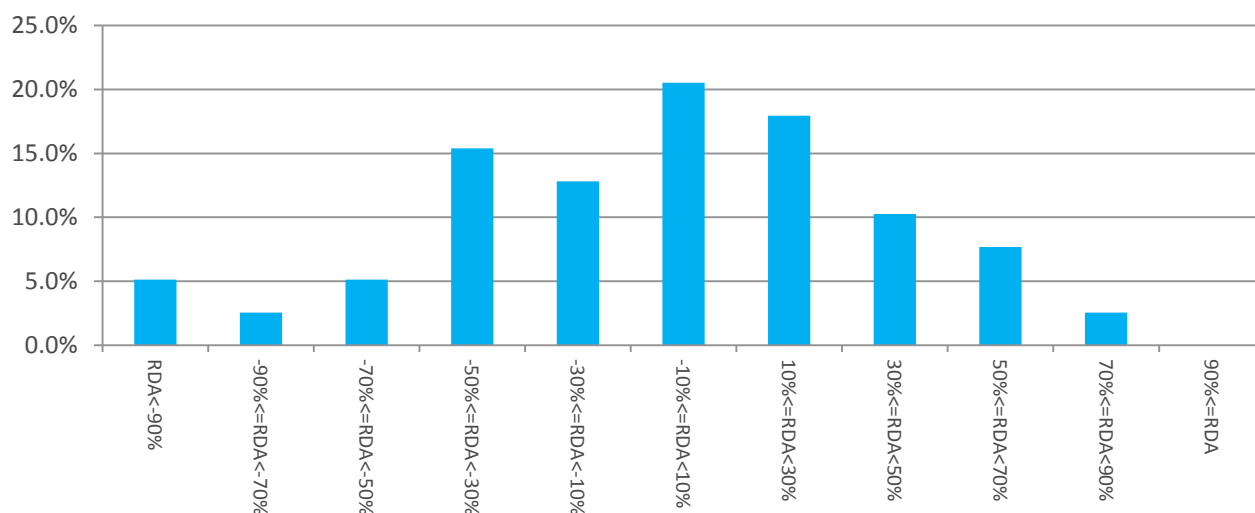


* Band B applied RDA(2Yr) to German subject companies.



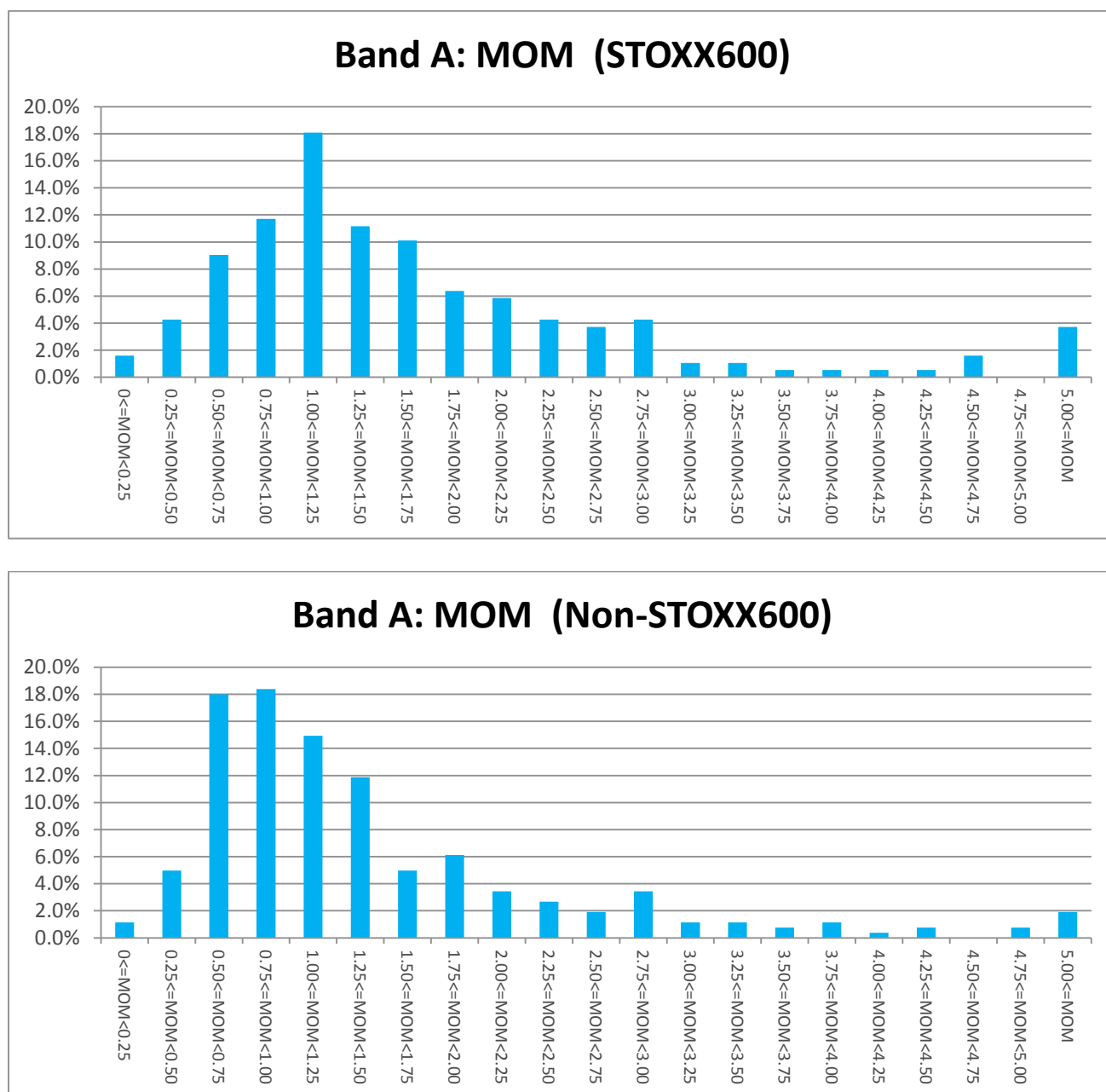
* Band B applied RDA(2Yr) to German subject companies.

Band C: RDA (STOXX600)**Band C: RDA (Non-STOXX600)**

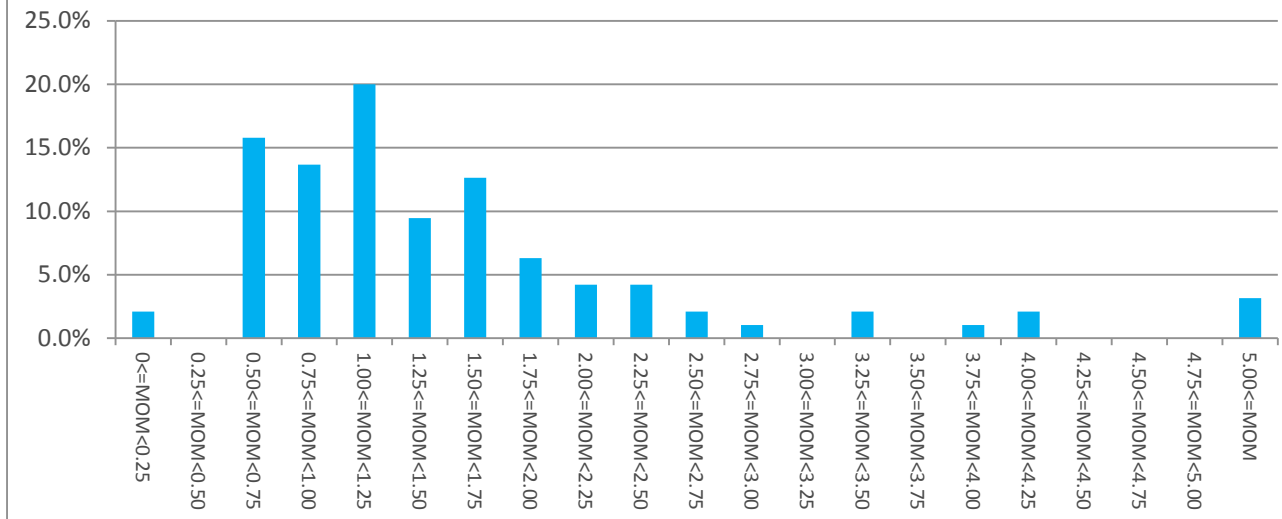
Band D: RDA (STOXX600)**Band D: RDA (NonSTOXX600)**

Multiple of Median

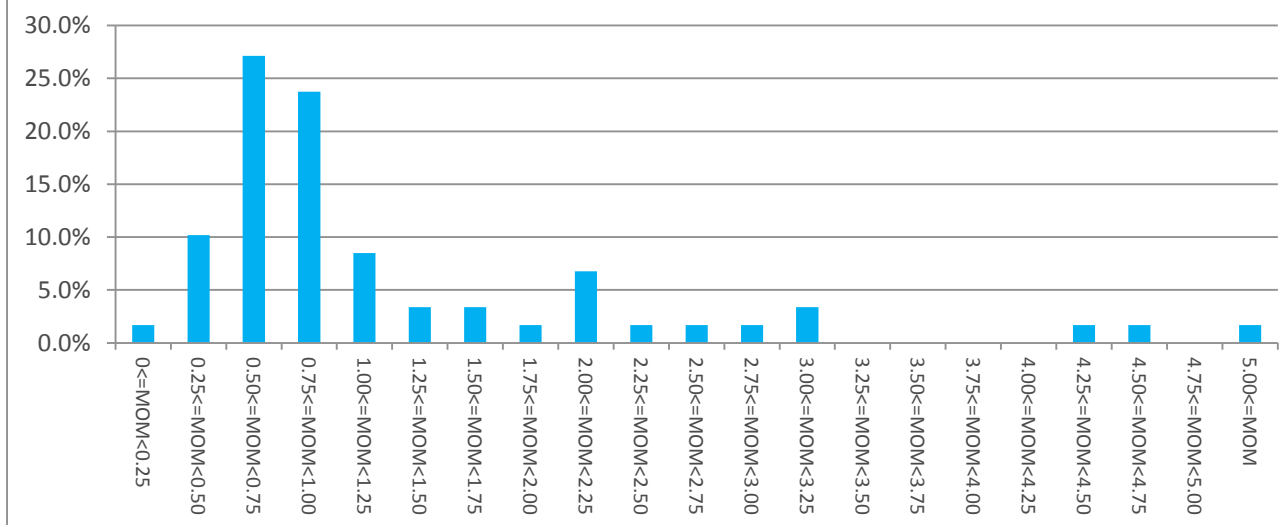
Figure 7a-h. Distribution of MOM scores for each country band.



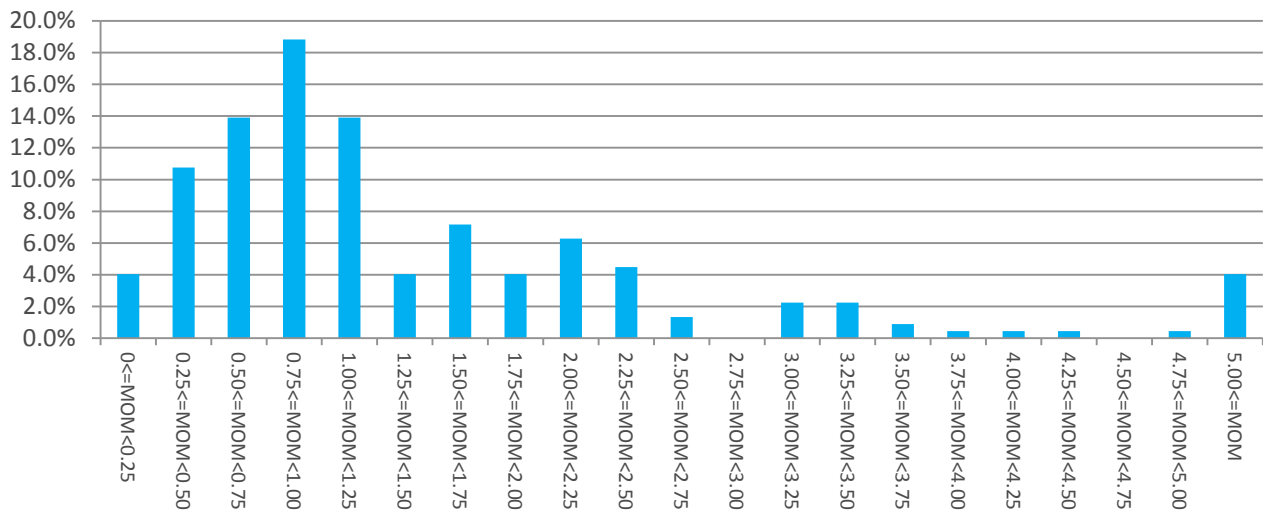
Band B: MOM (STOXX600)



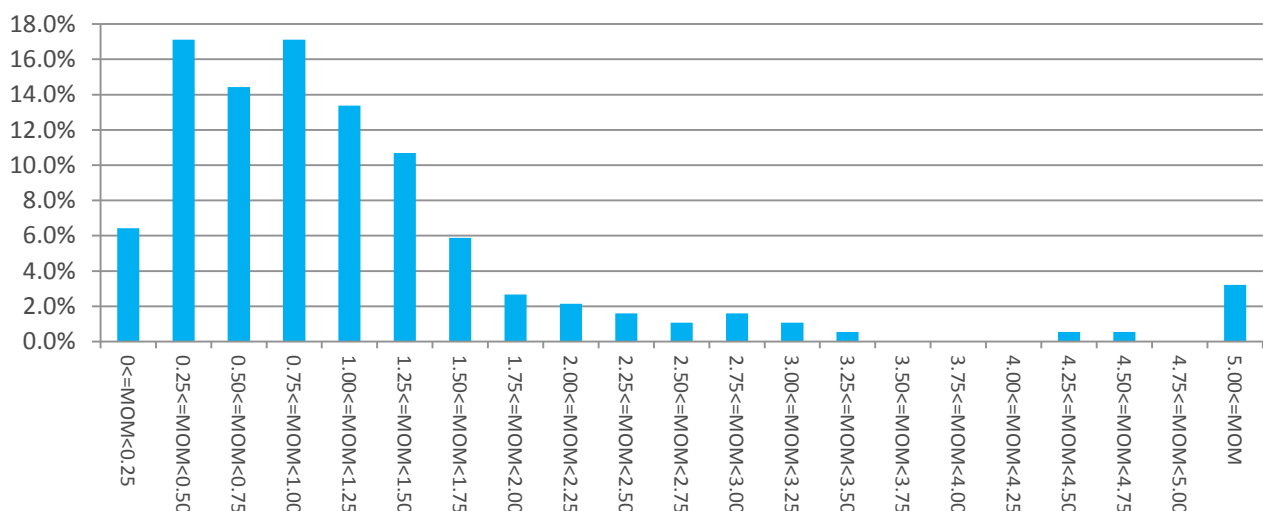
Band B: MOM (Non-STOXX600)



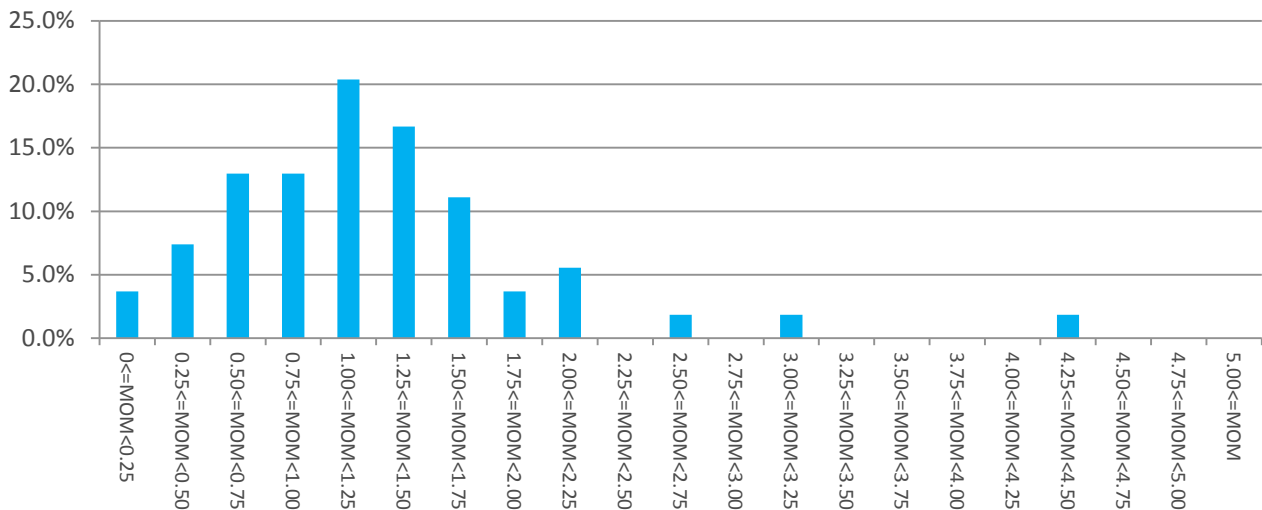
Band C: MOM (STOXX600)



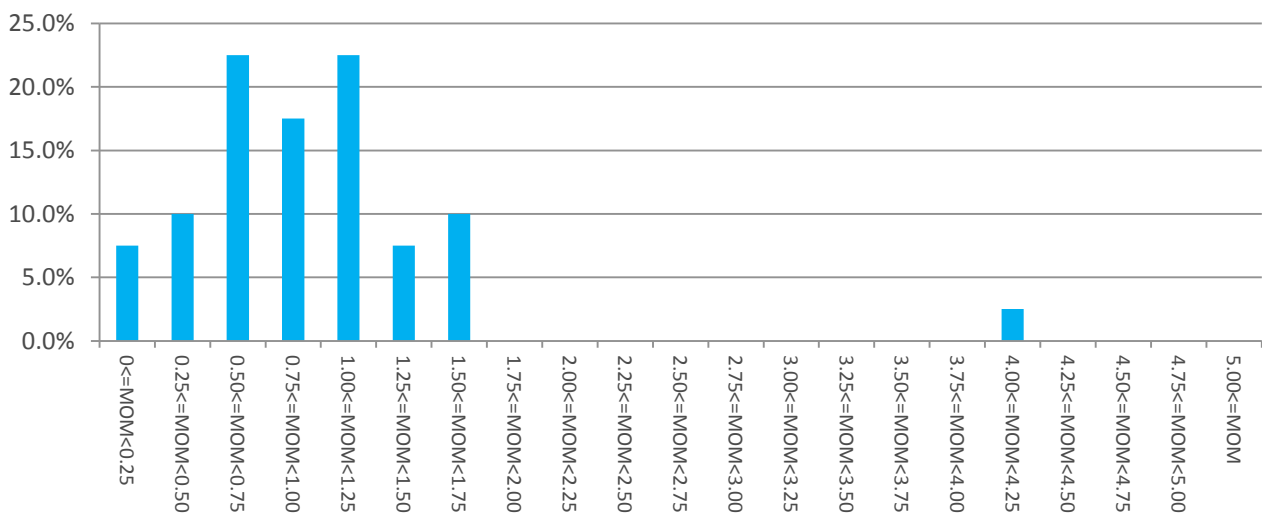
Band C: MOM (Non-STOXX600)



Band D: MOM (STOXX600)

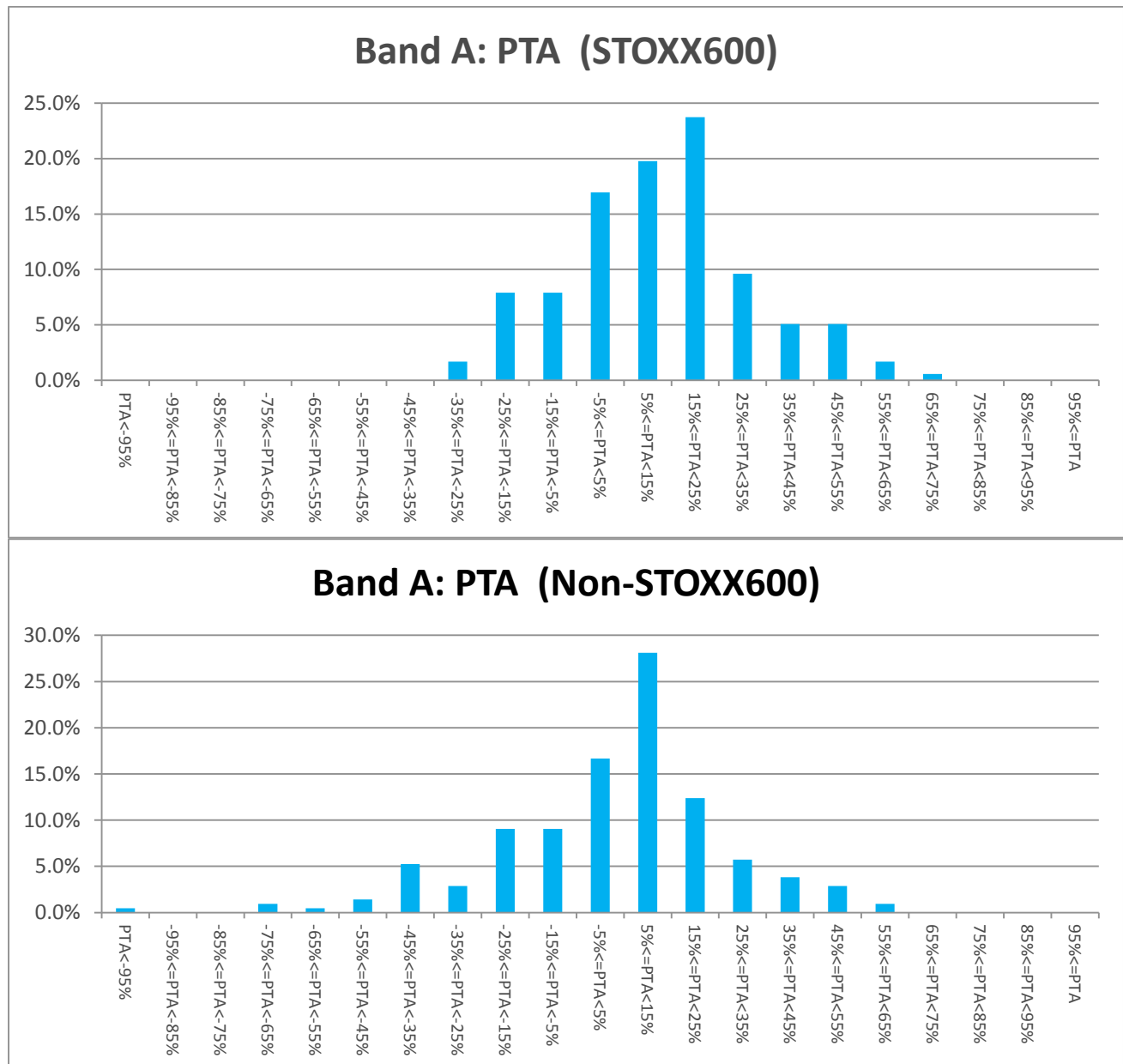


Band D: MOM (Non-STOXX600)

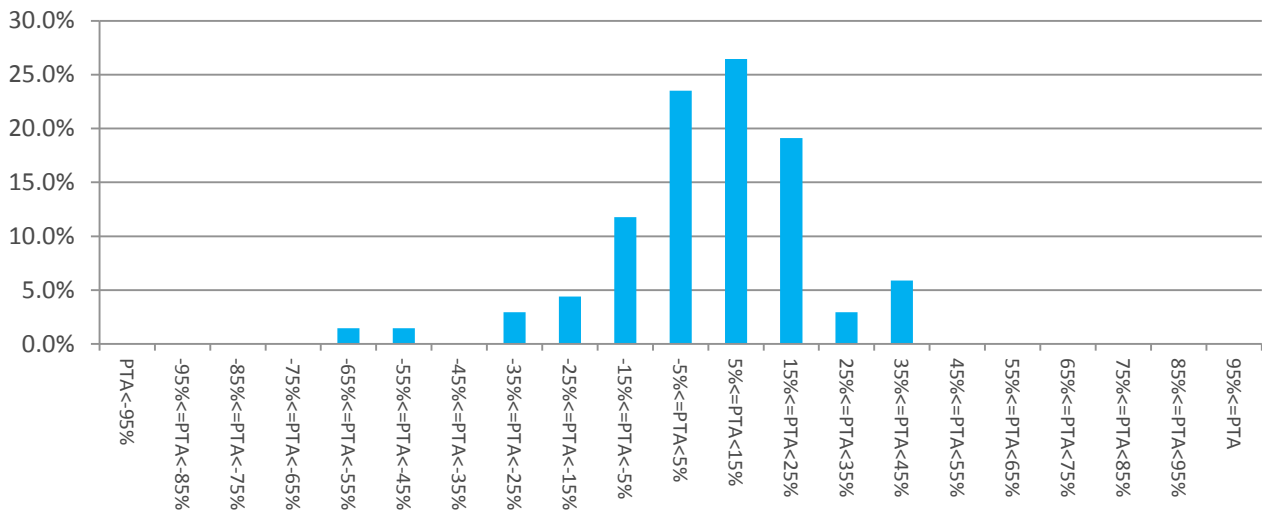


Pay-TSR Alignment

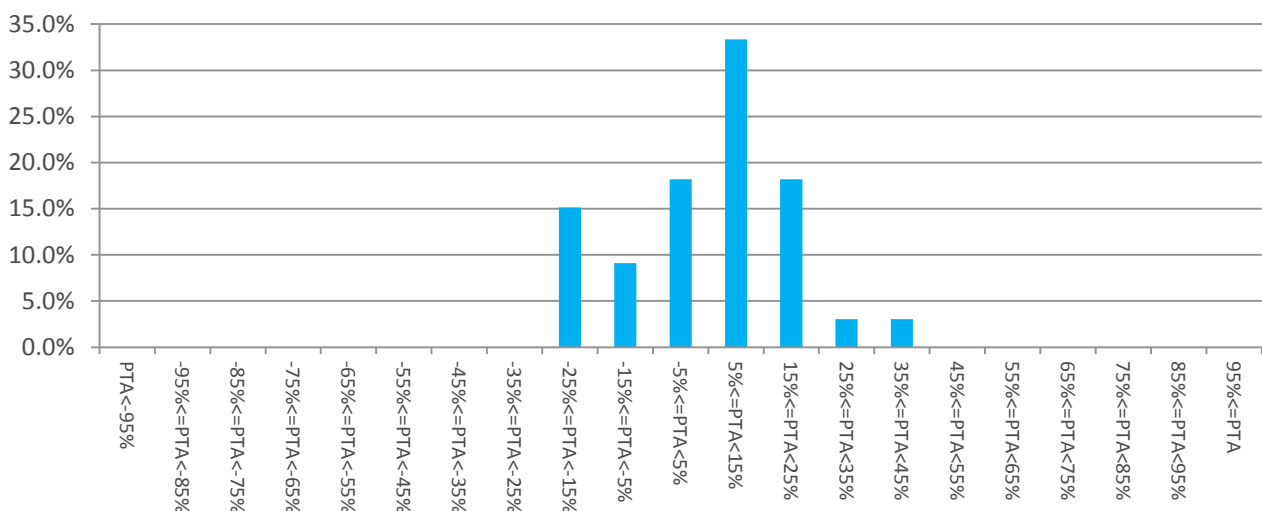
Figure 8a-h. Distribution of RDA scores for each country band.



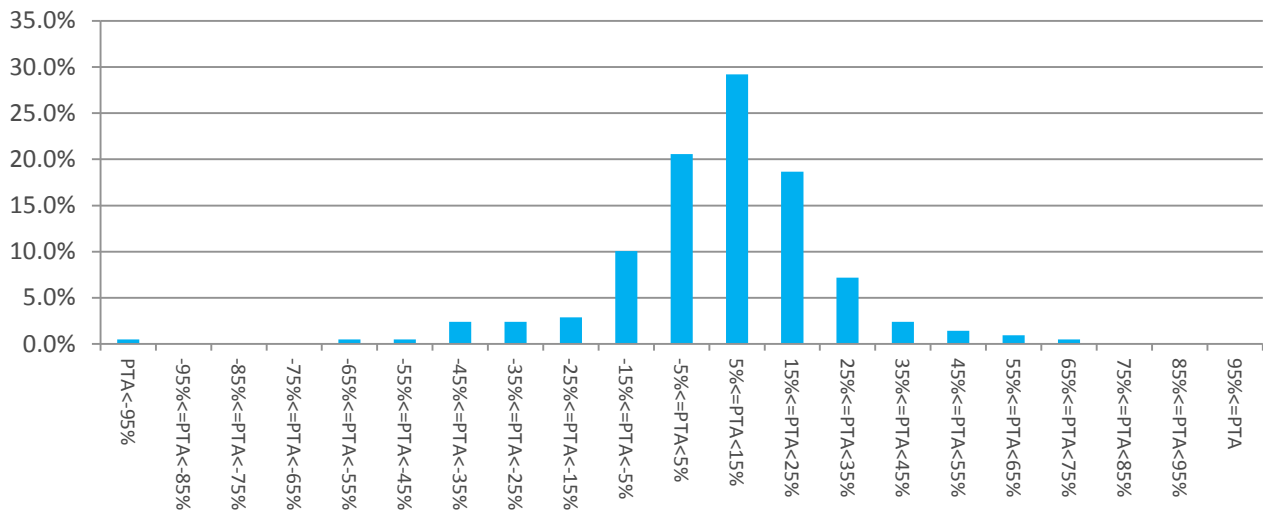
Band B: PTA (STOXX600)



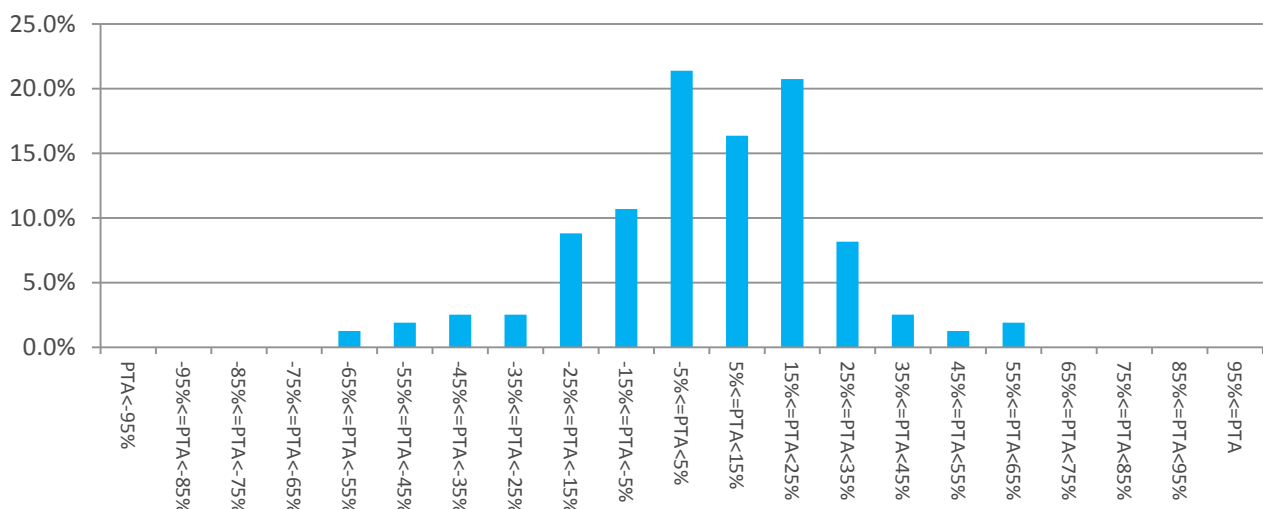
Band B: PTA (Non-STOXX600)



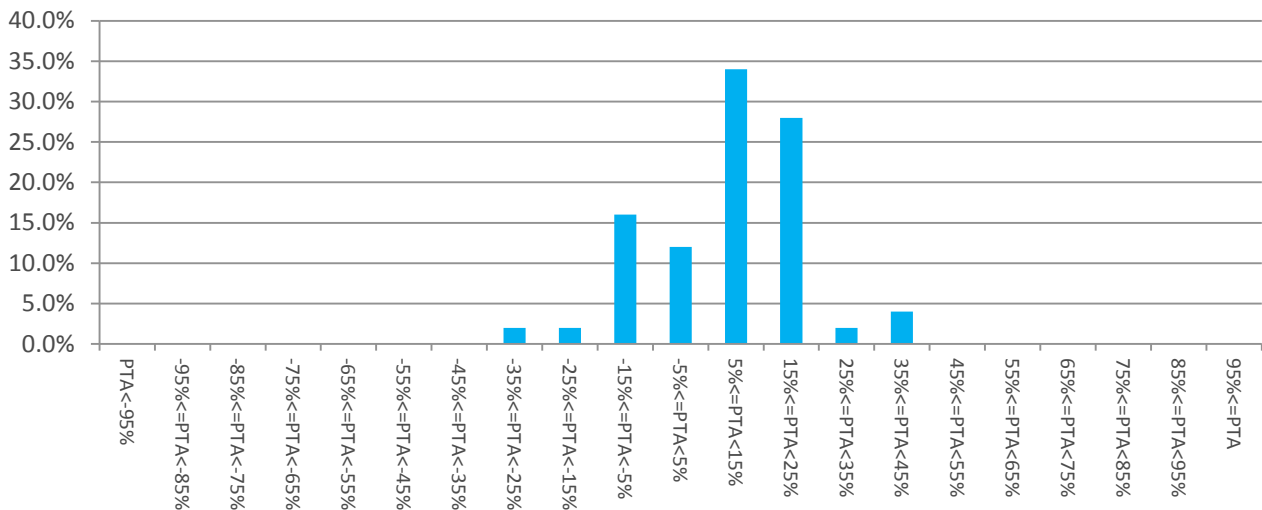
Band C: PTA (STOXX600)



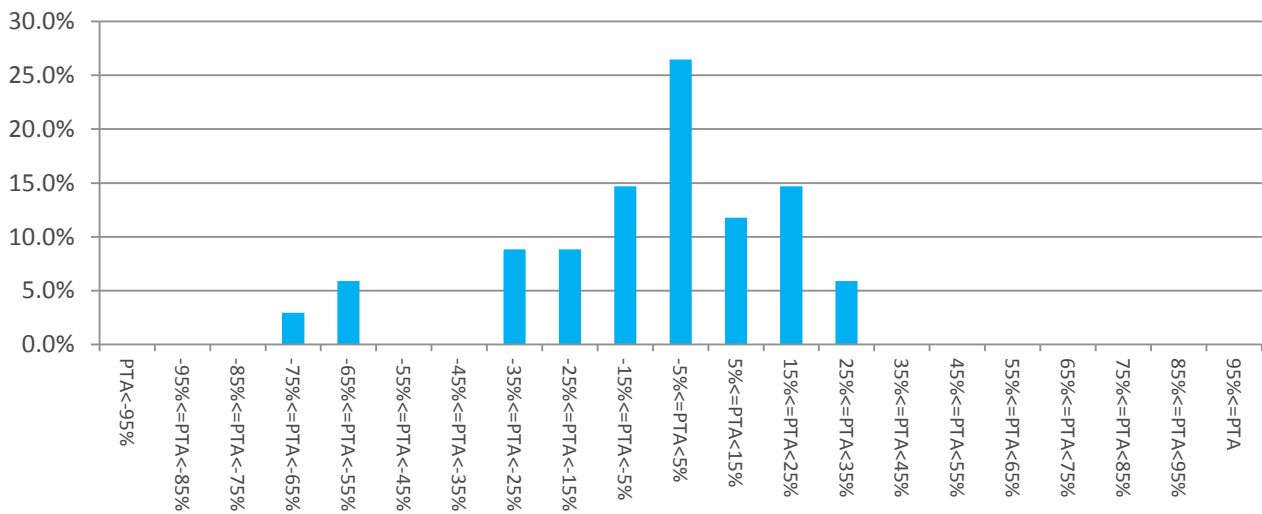
Band C: PTA (Non-STOXX600)



Band D: PTA (STOXX600)



Band D: PTA (Non-STOXX600)



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