EY Executive and Board Remuneration Report 2020

Norway

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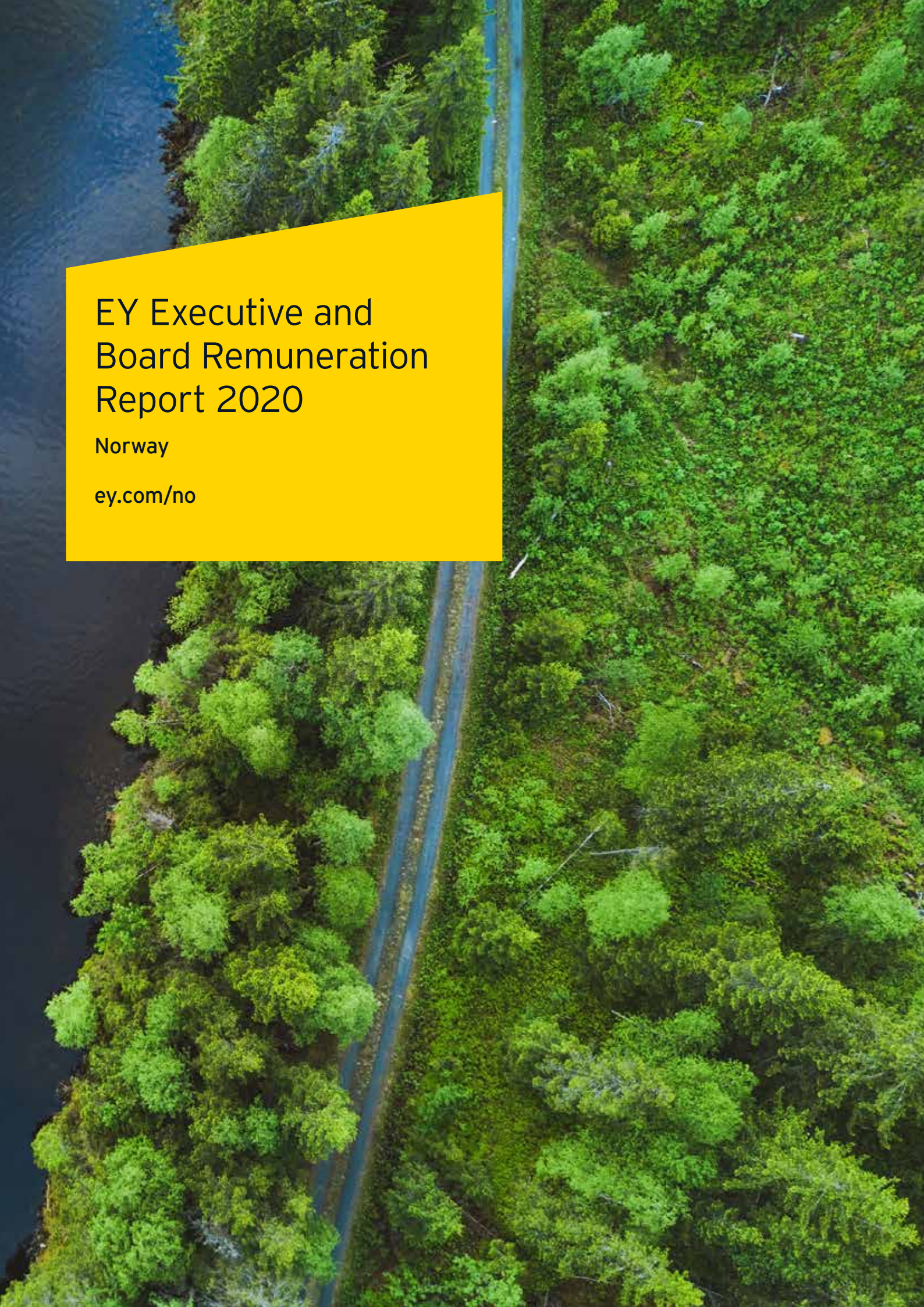
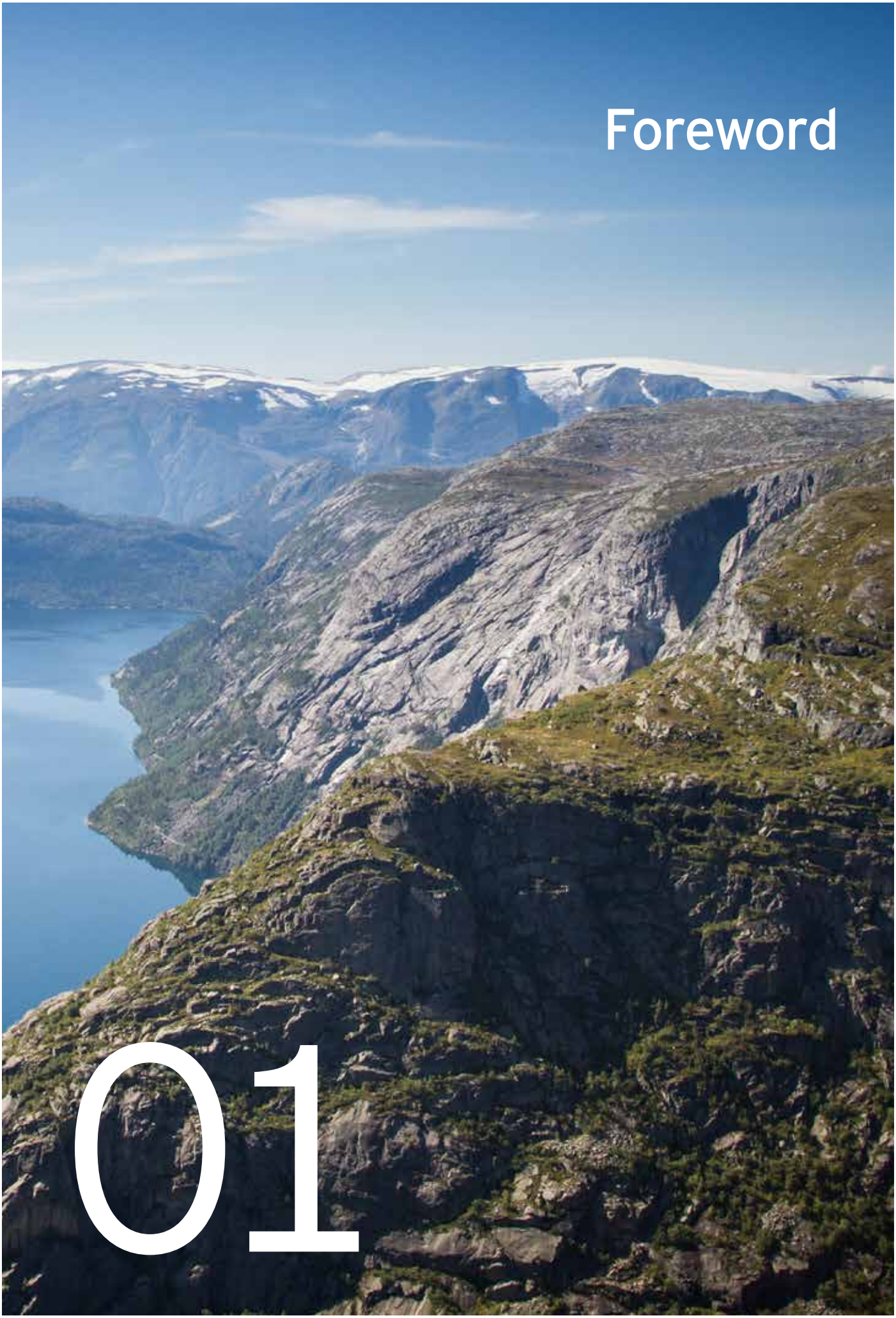


Contents



Foreword

01

Base salary continues to be the predominant element in executive compensation packages for Norwegian Oslo Stock Exchange Benchmark Index (OSEBX) companies. It represents 76% of the total compensation (excluding long-term incentive). In 2019, we saw an overall increase in the base salary levels for all executives at a rate of 6.5%.

A vast majority of the CEOs and executive team members are still male. In 2019, we saw a positive increase in female CEOs from 2 to 4. The overall percentage of female executives is, still however, only 24%.

The COVID-19 situation has led to new set of challenges. The severe reduction of the oil price has also caused significant distress in the Norwegian Oil and Gas sector. What happens to motivation at work when life, in general, becomes uncertain? Research indicates that companies must create commitment and hope in times of uncertainty. Many incentive plans are currently out of money. Compensation committees need to consider whether the key performance indicators (KPIs) set in the companies' short-term incentive (STI) plans (and long-term incentive (LTI) plans) reflect the current financial situation and whether the current KPIs drive the right behavior among executives to fulfill the strategy set by the board. Before the board members amend current incentive plans, it is important to consider both tax effects for the executives and tax and accounting effects for the company.

We expect that the COVID-19 crisis, combined with the implementation of the New Shareholders Right Directive, which is likely to be fully implemented in 2020, will accelerate the need to review and amend the companies' current executive remuneration policies. The new regulations aim to enhance transparency by demanding more detailed disclosure of executive remuneration to increase shareholder influence, prevent risk-taking and undue focus on short-term returns.

We can expect that many boards will also consider changing payouts from cash to equity or deferring payouts. Further, we can expect the executives to continue to hold substantial number of shares in the company. The easiest way to achieve this will require executives to invest a substantial portion of the STI (i.e., 50% of the bonus after tax) into shares in the company.

Best regards,

Trond Olsen
Partner
Ernst & Young AS, People Advisory Services, Reward

About this report

02

This year's remuneration report is a continuation of the EY Executive and Board Remuneration Report series. The metrics used in the analyses are kept equal to previous editions, where we have analyzed remuneration paid, as listed in the annual reports, to incumbent executives on the Oslo Stock Exchange Benchmark Index (OSEBX) at median values in Norwegian kroner (NOK).

The use of median values, rather than averages, is useful when analyzing executive compensation in a diverse sample of companies as it is less susceptible to extremely high or low values. It will give a representation of the average value of all data points in the sample. However, a limitation of the median is that it does not reflect the full variation in the sample. When reading the report, you should keep in mind that the analyses are based on a relatively low number of overall data points, and that the median values do not offer a comprehensive view of the bigger picture.

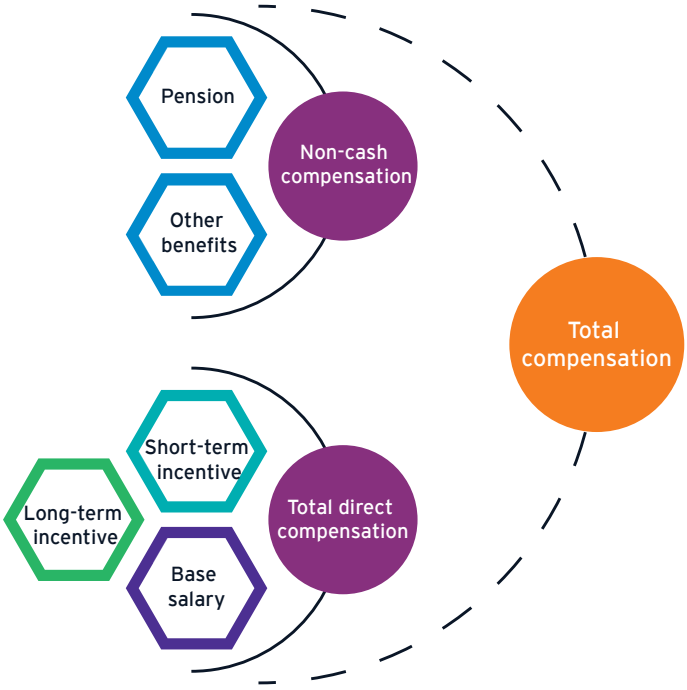


Figure 1: Executive compensation elements

As in the previous year's report, we present median remuneration levels for CEOs, CFOs and other executives. We have also continued the exercise of looking at all companies in the OSEBX list, as well as performing separate analyses for the top 10 and bottom 10 companies based on market capitalization (market cap) to illustrate how remuneration levels vary according to company size.

Figures 1 and 2 given below provide an overview of all executive compensation elements that make up total compensation, and elements included in the analyses of this year's remuneration report, respectively. We emphasize that EY report does not include the LTI amount as this information is not reported consistently by the companies in the annual reports. Hence, when we refer to total compensation, we refer to figure 2.

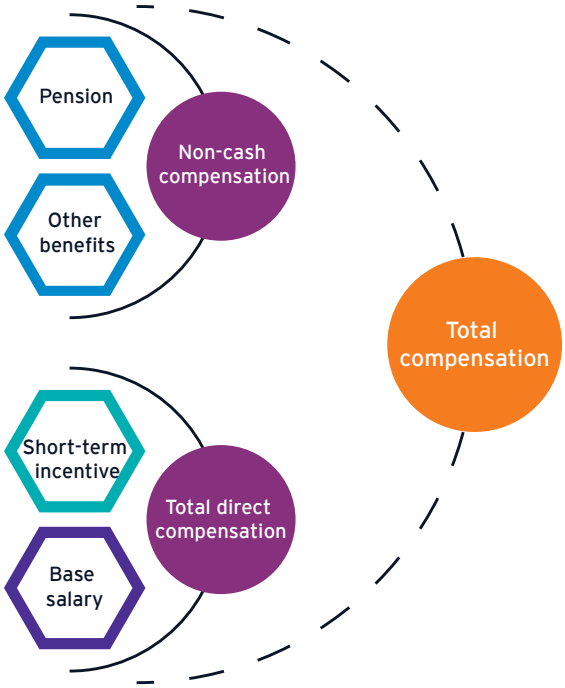
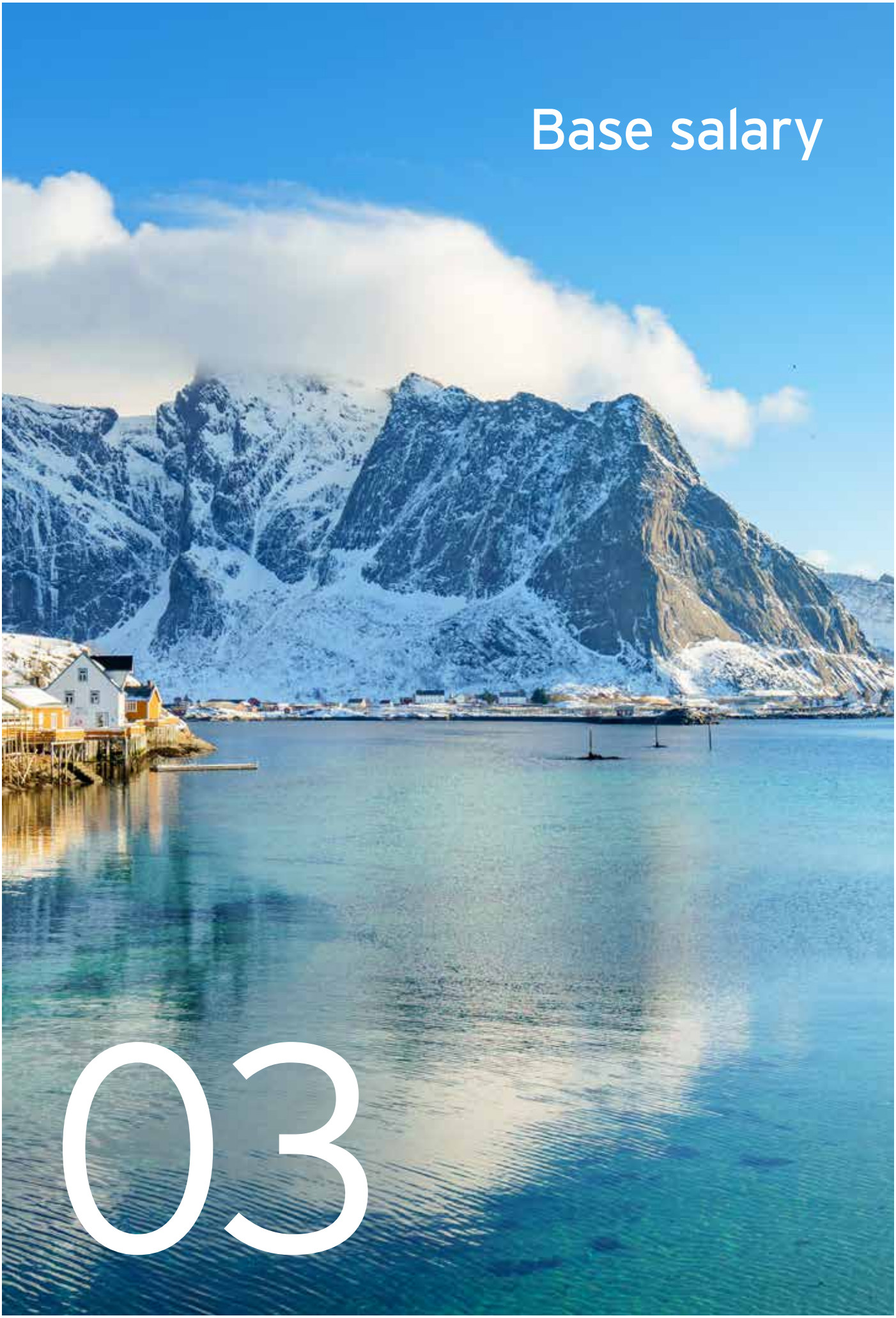


Figure 2: Executive compensation elements included in EY analyses



Base salary

03

Chief Executive Officer

In general, the median base salary level for CEOs decreased by 1% from 2018 to 2019. If we look at the CEOs in the top 10 companies by market cap, the median base salary level decreased by 2%. Whereas, it increased by 10% for CEOs in the bottom 10 companies based on market cap (figure 3).

However, when taking a closer look at the numbers, we see that the decrease in base salary levels for all companies and the top 10 companies is due to changes among the companies in the scope of the analysis. By keeping the sample of companies equal to last year, the median base salary level increased by 7% from 2018 to 2019 (figure 6).

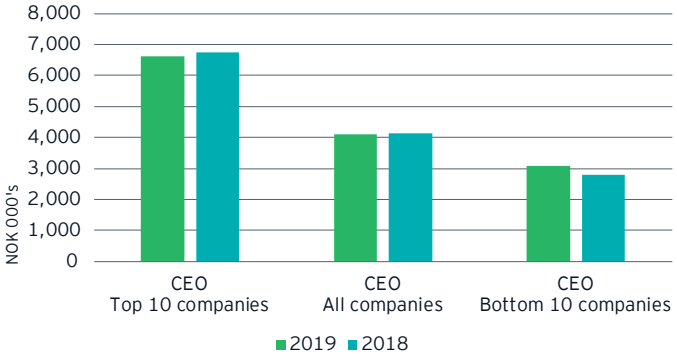


Figure 3: CEO base salary levels (2018 vs. 2019)

Chief Financial Officer

For CFOs, we have observed an increase of 3% in base salary level among all companies in 2019, compared to 2018. However, there is an observed decrease of 7% among the top 10 companies by market cap (figure 4). The decline is most likely due to the replacement of CFOs in many of the companies, changes among companies in the scope of analysis, and foreign exchange rate variations.

When conducting the same sample analysis, we find that the median base salary level of CFOs for all companies has increased by 2.5% (figure 6).

At the other end of the market cap rankings, for the bottom 10 companies, base salary levels increased by 4%.

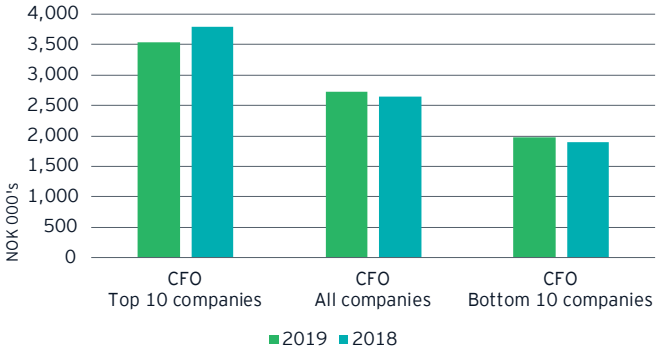


Figure 4: CFO base salary levels (2018 vs. 2019)

Other executives

In general, we have observed an increase of 9% in base salary in the other executives (OE) category among all companies in 2019, compared to 2018. Also, we have seen a minor decrease in base salary among the top 10 companies by market cap, which amounted to 1%. At the other end of the market cap rankings, for the bottom 10 companies, the base salary levels increased by 3% compared to last year. We believe the decrease among OE in the top 10 companies is caused by the variables as discussed for CEOs and CFOs (figure 5).

The same sample analysis for OE shows a base salary increase of 5% among all companies (figure 6).

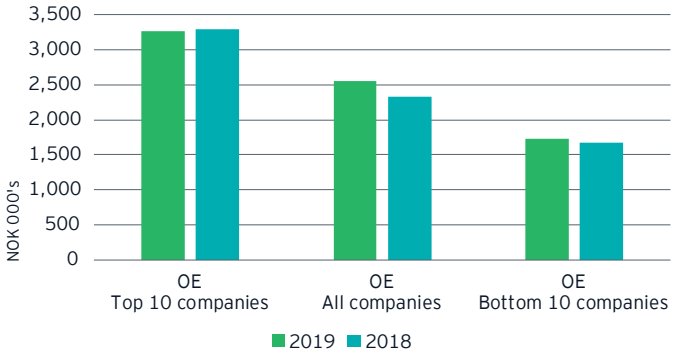


Figure 5: OE base salary levels (2018 vs. 2019)

Same sample analyses

Refer to figure 6 below for the same sample analyses on base salary.

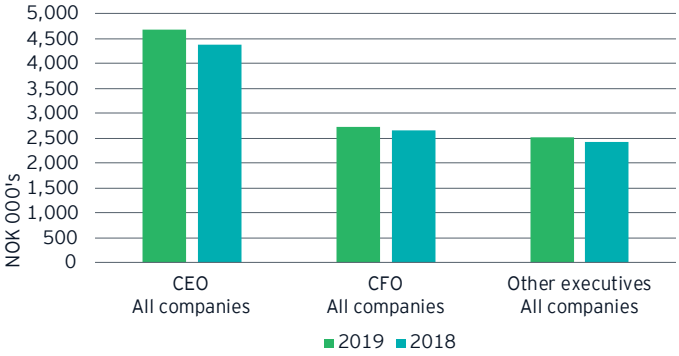
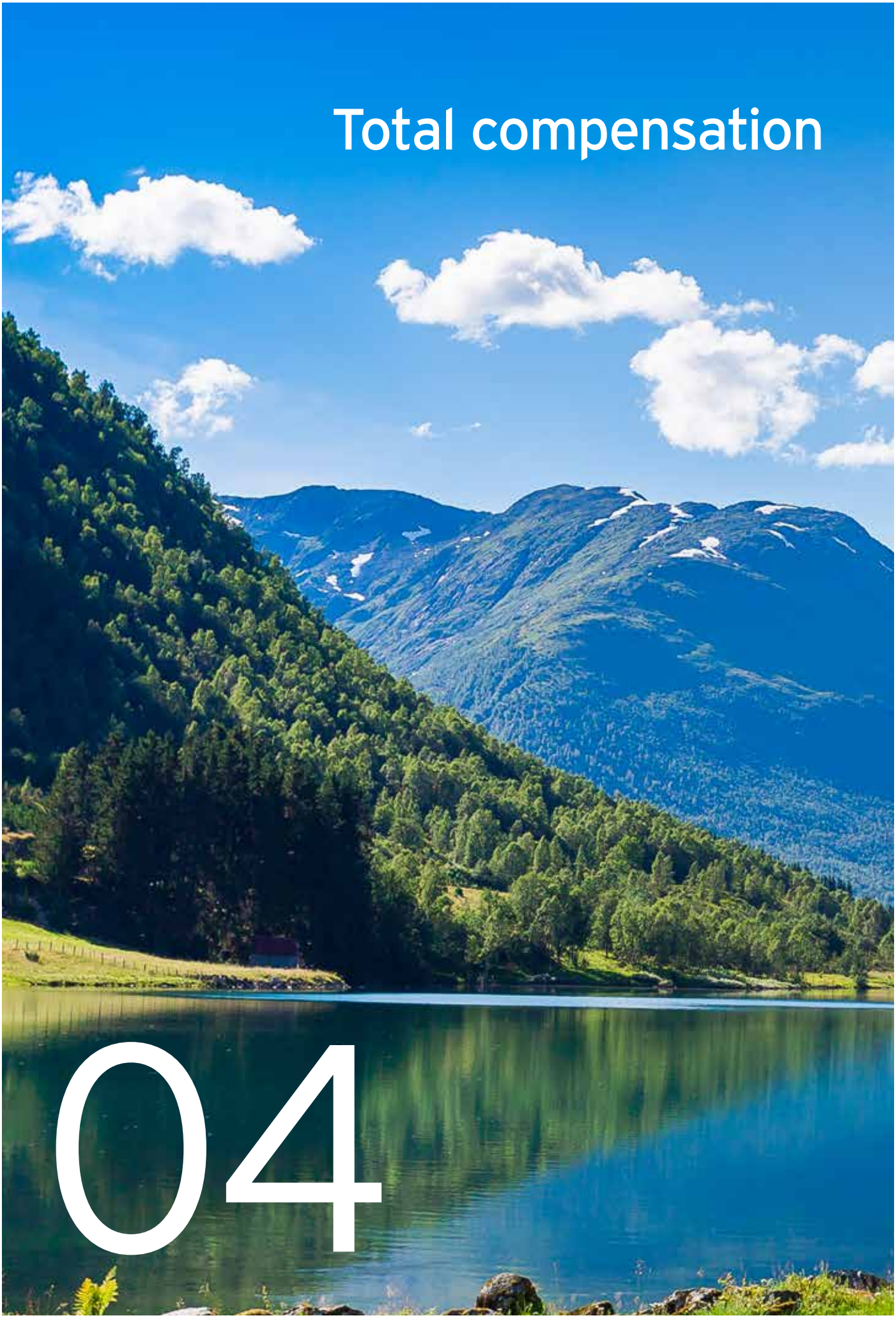


Figure 6: Same sample analysis (2018 vs. 2019)

Total compensation



04

Chief Executive Officer

A decrease of 5% in total compensation is observed among OSEBX CEOs from 2018 to 2019 (figure 7). The drop is driven by a dip in STI payouts and other benefits, while base salary and pension have remained stable through the observation period. The remuneration mix, in figure 8, illustrates each compensation element's relative portion of CEO total compensation in 2019.

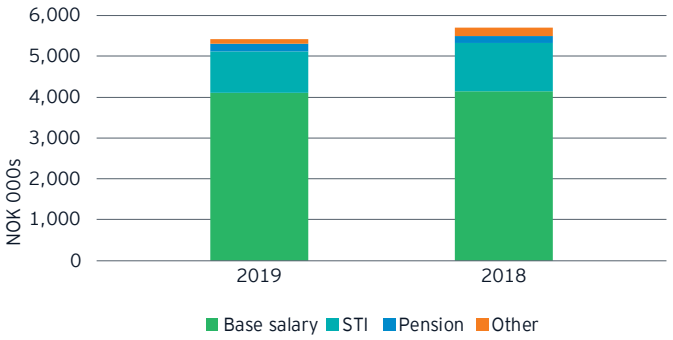


Figure 7: CEO total compensation (2018 vs. 2019)

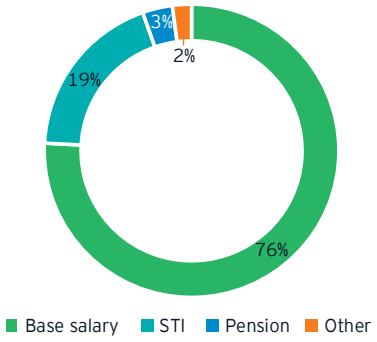


Figure 8: CEO remuneration mix

Chief Financial Officer

A decrease of 4% in total compensation is observed among OSEBX CFOs from 2018 to 2019 (figure 9). The decrease observed among CFOs – like with CEOs – is also driven by a dip in STI payouts and other benefits. Base salary and pension levels have experienced a slight increase in 2019, compared to 2018 level. The remuneration mix, in figure 10, illustrates each compensation element's relative portion of CFO total compensation in 2019.

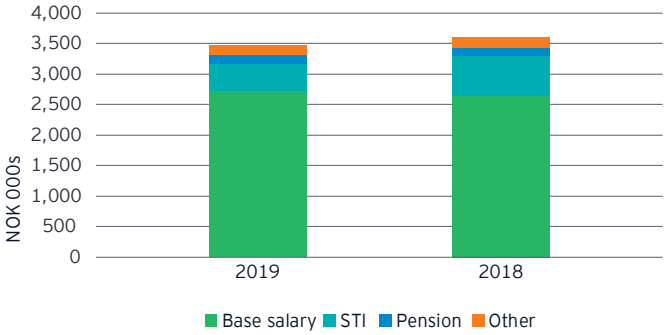


Figure 9: CFO total compensation (2018 vs. 2019)

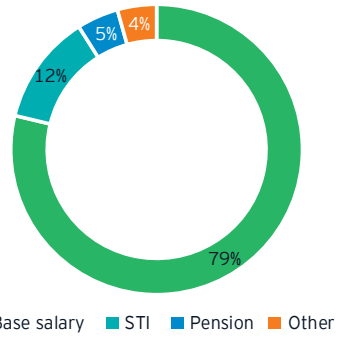


Figure 10: CFO remuneration mix

Other executives

The OE category experienced a slight increase of 2% in total compensation in 2019, compared to 2018. While this group also saw a decrease in STI payments, the increase in base salary give an overall increase in total compensation, as illustrated in figure 11. The remuneration mix, in figure 12, illustrates each compensation element's relative portion of OE total compensation in 2019.

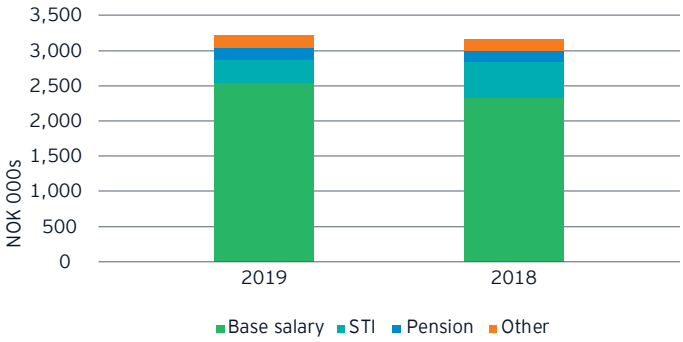


Figure 11: OE total compensation (2018 vs. 2019)

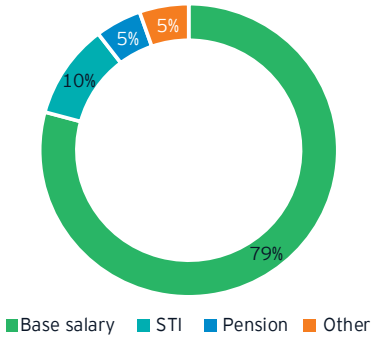
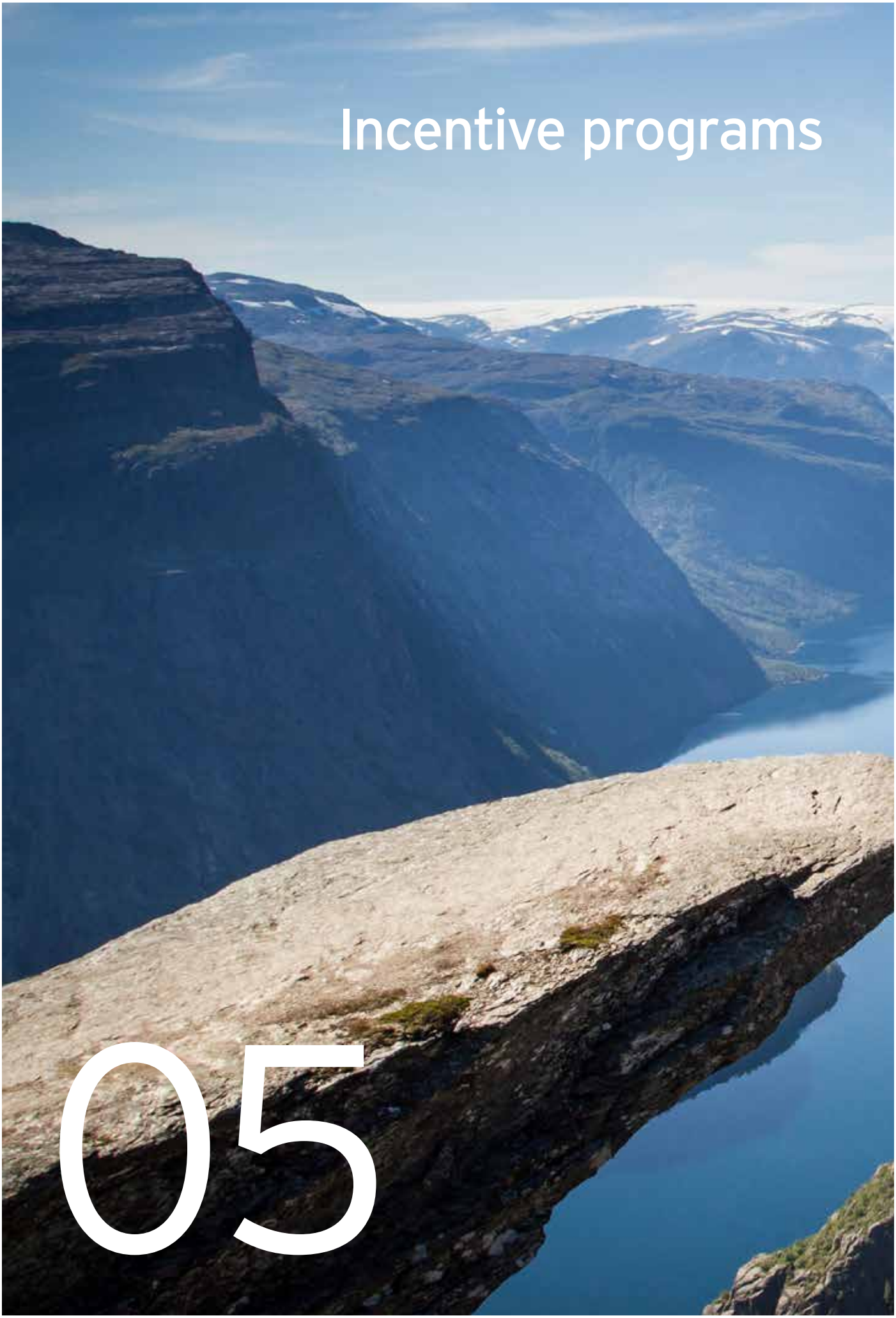


Figure 12: OE remuneration mix



Incentive programs

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Short-term incentives (STI)

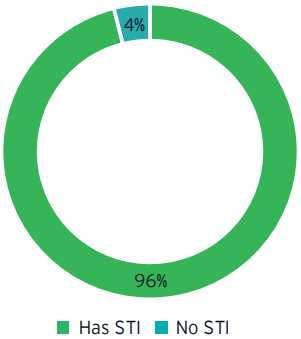


Figure 13: Companies with a STI program

In 2019, 96% of the companies, included in EY analyses, offered the STI program to their executives, an increase from 90% in 2018.

Long-term incentives

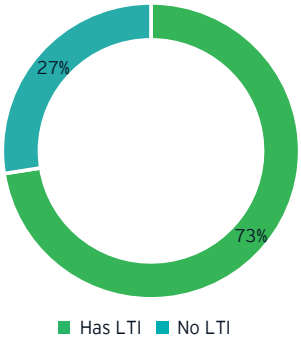


Figure 14: Companies with a LTI program

In 2019, 73% of the companies, included in EY analyses, offered the LTI program to their executives, a slight decrease from 76% in 2018. Figure 15 below classifies different types of programs. We take note of the increase in popularity of performance shares, up to 33% from 22% last year. Also, there is a decline in the usage of stock option plans, with a share of 33% this year, compared to 44% in 2018. Figure 8 illustrates a detailed view of the constituents of CEO remuneration.

The increase in the use of performance-related plans might be a consequence of the recent focus among governments and investors to clarify the link between pay and performance. Please refer to the Corporate Governance and Reporting section for the recent updates to Norwegian legislation, which focuses on a clearer link between pay and performance.

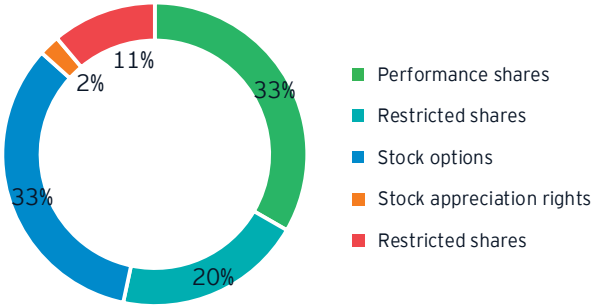
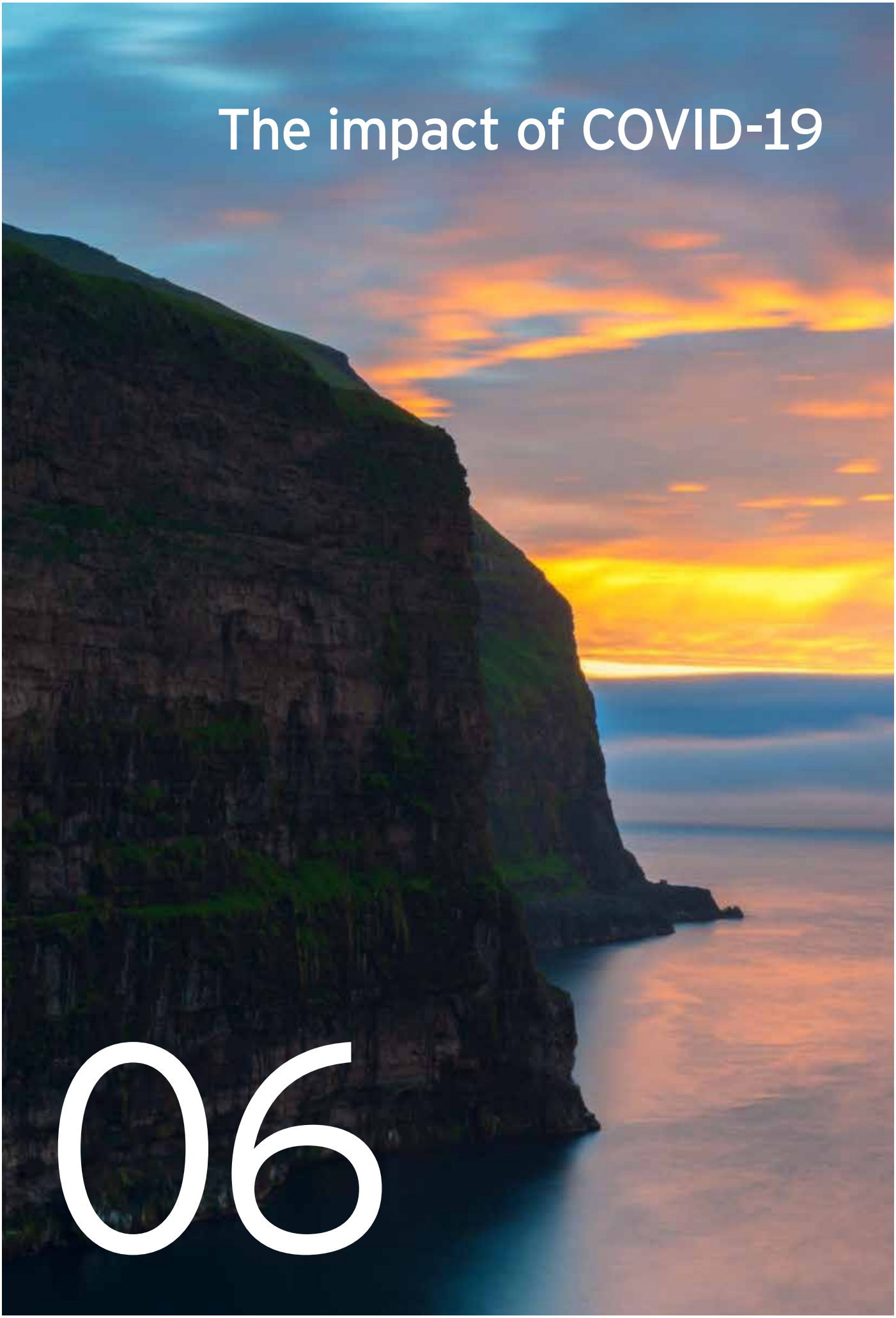


Figure 15: Types of LTI programs



The impact of COVID-19

06

The COVID-19 pandemic has so far affected every part of the society, including Norwegian businesses. The situation has had economic and operational effects for many companies, and it is hard to predict how extensive the impact will be during the financial year of 2020.

Some of the challenges companies are facing are loss of revenue, liquidity challenges, compliance with lending terms, a historically low Norwegian krone[1], and meager oil prices. The Norwegian Government has so far implemented several regulatory changes to support businesses, launched various economic action packages, and assured of upcoming measures.

In addition to the support from the authorities, most companies have had to assess their specific situation and take necessary measures, including salary freeze and adjustments, furlough, recruitment freeze and withholding of dividends and bonus payments.

COVID-19 and incentive programs

The COVID-19 crisis puts pressure on the liquidity of many companies. This could enforce the need for contract revisions or bonus scheme cancellations. The degree to which the employer can unilaterally amend bonus schemes depends on whether the employment contract explicitly includes the right to the bonus or the right is conditional on the company or the board's discretion.

In any case, it could be appropriate to amend the terms of an STI, where the employee must invest a sizeable portion of the bonus into company shares. If these shares are subject to a restriction period, it is accepted by the tax authorities that the value of the restriction period is a value-reducing element. Consequently, the taxable value of the shares and the basis for employer social security is reduced.

In Norway, the portion of LTI in relation to total compensation is lower than most countries we generally compare EY with. For many companies, it could be interesting to transfer a significant part of the bonus arising from STI plans to share-based LTI plans. Not only will this improve the companies' liquidity on a short-term basis, but such a change will also better align the interests of the employees and shareholders.

Even though it is difficult to say how the year will pan out, we believe that all companies with STI and LTI plans — sooner rather than later — should review the plan type and KPIs associated with the bonus plans.

Topics to consider

- How to set LTI performance targets in the current unpredictable situation?

  Granting restricted shares or having a short performance period followed by a holding period could be considered. However, institutional investors do not prefer "free shares" or short performance periods in an LTI plan.

- How to incentivize key employees when a company has limited resources due to COVID-19?

  Most employees don't expect the incentive plans to pay out during a downturn. However, for a smaller group of critical employees, you could consider resetting the target levels and possibly payouts to reflect the current situation. If a new LTI will shortly be implemented, taking the situation into account in the schedule, structure and targets of the future LTI to ensure continuing incentivization.

- Should issuance of new incentive programs involve shift from STI to LTI?

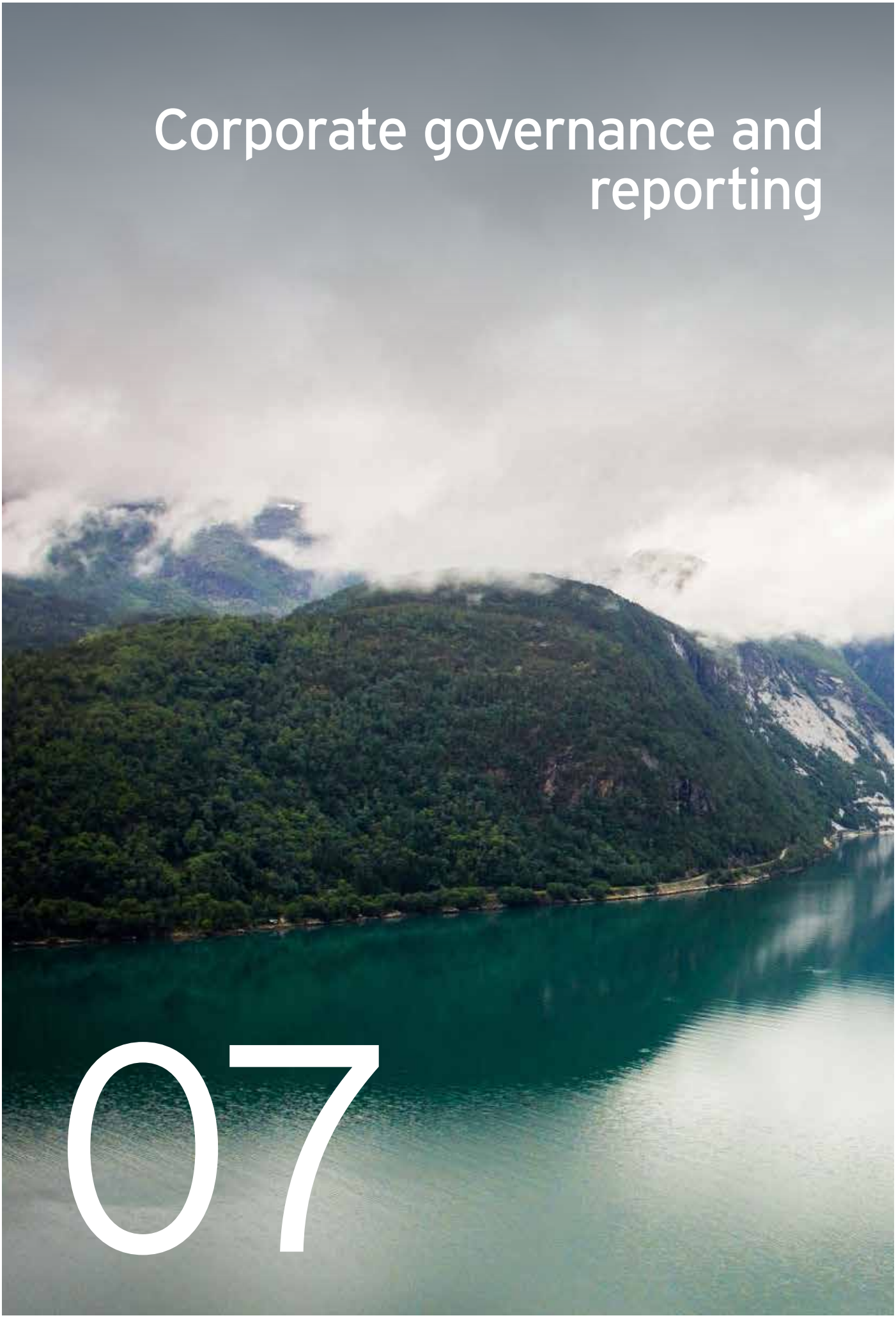
  With the turmoil caused by the COVID-19 outbreak and drop in the oil price, it is reasonable to assume that this year's STI plans have "run aground" for many companies. We can argue on incentivizing such plans when they are neither achievable nor aligned to the current market conditions. One solution could be to shift from cash to equity payout or defer payouts.

- What should companies consider with their current stock option plans?

  The COVID-19 outbreak has caused a slump in the market, and many executives might find their stock options to be way underwater. While this risk must be taken into consideration when entering into such an LTI plan, it might not provide the desired long-term incentivizing effect. We can argue that companies should consider cancelling the current stock option plan with the subsequent issuing of a new plan or issuing a parallel plan based on current market conditions.

[1]Norges Bank Exchange rates: https://www.norges-bank.no/en/topics/Statistics/exchange_rates/

Corporate governance and reporting



07

Implementation of the amended Shareholders Rights Directive

TIn December 2019, the Norwegian Parliament adopted amendments to the Companies Act and the Public Companies Act. Most of the amending acts entered into force at the beginning of 2020. However, the section related to the implementation of the revised Shareholder Rights Directive (SRD 2007/828/EU) has yet to enter into force. There is no set time for its implementation. However, the Ministry has signaled that the law will not be effective until the Regulation (forskrift) is in place, which is expected in the second half of 2020.

Implementing SRD will bring new paragraphs governing salary and other remuneration for senior management and board of directors in chapter 6 of the Public Companies Act. The amended legislation imposes more detailed reporting requirements and transparency for remuneration policy guidelines for listed public-limited companies. The rules are repealed for unlisted public-limited companies. The repeal does not mean that unlisted companies have no reporting obligations; they must still disclose information as per the Accounting Act § 7-31b.

Remuneration policy

The remuneration policy must include a detailed explanation regarding the remuneration policy with a focus on executive remuneration. The remuneration policy will be subject to a binding vote at the annual general meeting (AGM) in 2021, and subsequently, every four years or in case of any substantial changes. The Public Companies Act does not include detailed descriptions of the specific requirements, but it will be included in the Regulation to the Public Companies Act.

Remuneration report

Listed companies must prepare an annual remuneration report, which must also show how the guidelines have been followed up (Public Companies Act, § 6-16b). For listed companies, this requirement comes in addition to remuneration reporting in the Accounting Act (Regnskapsloven), section 7-31b. The remuneration report will be subject to an advisory vote at the AGM (Public Companies Act, § 5-6(4)).

The amendments will require a higher level of reporting detail. For an overview of the minimum standards required, please refer to last year's report[2].

Point of view

EY teams believes that the new reporting requirements will better enable investors to compare executive remuneration to corporate results across the European Economic Area (EEA), where the SRD is implemented. We recommend that companies review their current remuneration policies and reporting procedures in 2020 to ensure their alignment before AGM 2021.

As the amendments in the Public Companies Act do not contain elaborate explanations on how the reporting should be conducted in practice, the regulation is expected to contain the minimum requirements required by the European Union (EU) law. EY teams believes that the amendments will not be implemented until the end of the year. This is in line with the business cycle and will allow companies time to adapt their remuneration policies before AGM 2021.

[2]EY 2019 Executive and Board Remuneration Report

Implementation of the amended Capital Requirements Directive and Regulation

The EU Capital Requirements Directive and Regulation (CRD IV 2013/36/EU and CRR No 575/2013) has been effective from 31 December 2019. Consequently, amendments are made in regard to the remuneration requirements in the Financial Companies Regulation (finansforetaksforskriften) and the CRR/CRD IV Regulation (CRR/CRD IV-forskriften). This amendment has also led to an update of Circular 15/2014 – replaced by Circular 2/2020 – where the Financial Supervisory Authority explains how they will interpret and follow up the regulations in its supervision of the financial institutions concerned.

CRD IV will impact executive remuneration at financial institutions in Norway through amendments to the Financial Institutions Regulation. This will apply to companies falling within the scope of the Financial Institutions Regulations.

To deter excessive risk-taking and ensure that decisions are made for the long-term stability of a company, the legislation restricts variable remuneration to "identified staff." Identified staff includes, among others, employees in a management position and material risk-takers.

The Capital Requirements Regulation ("CRR") amends the CRR/CRD IV Regulation by increasing reporting obligations about the remuneration policy, application of criteria to determine identified staff and the link between pay and performance. The rules can be divided into two categories – rules that apply to the overall remuneration policy for companies falling within the scope and rules that apply to the remuneration of identified staff and risk-takers.

Rules relating to identified staff and risk-takers:

- New quantitative criteria to determine risk-takers
- Higher percentage of variable remuneration to be deferred where payout is "particularly high"
- New rules regarding discretionary pension benefits
- Amended process when variable remuneration exceeds 100% of fixed salary
- Restrictions on the remuneration committee membership

Rules regarding the remuneration policy

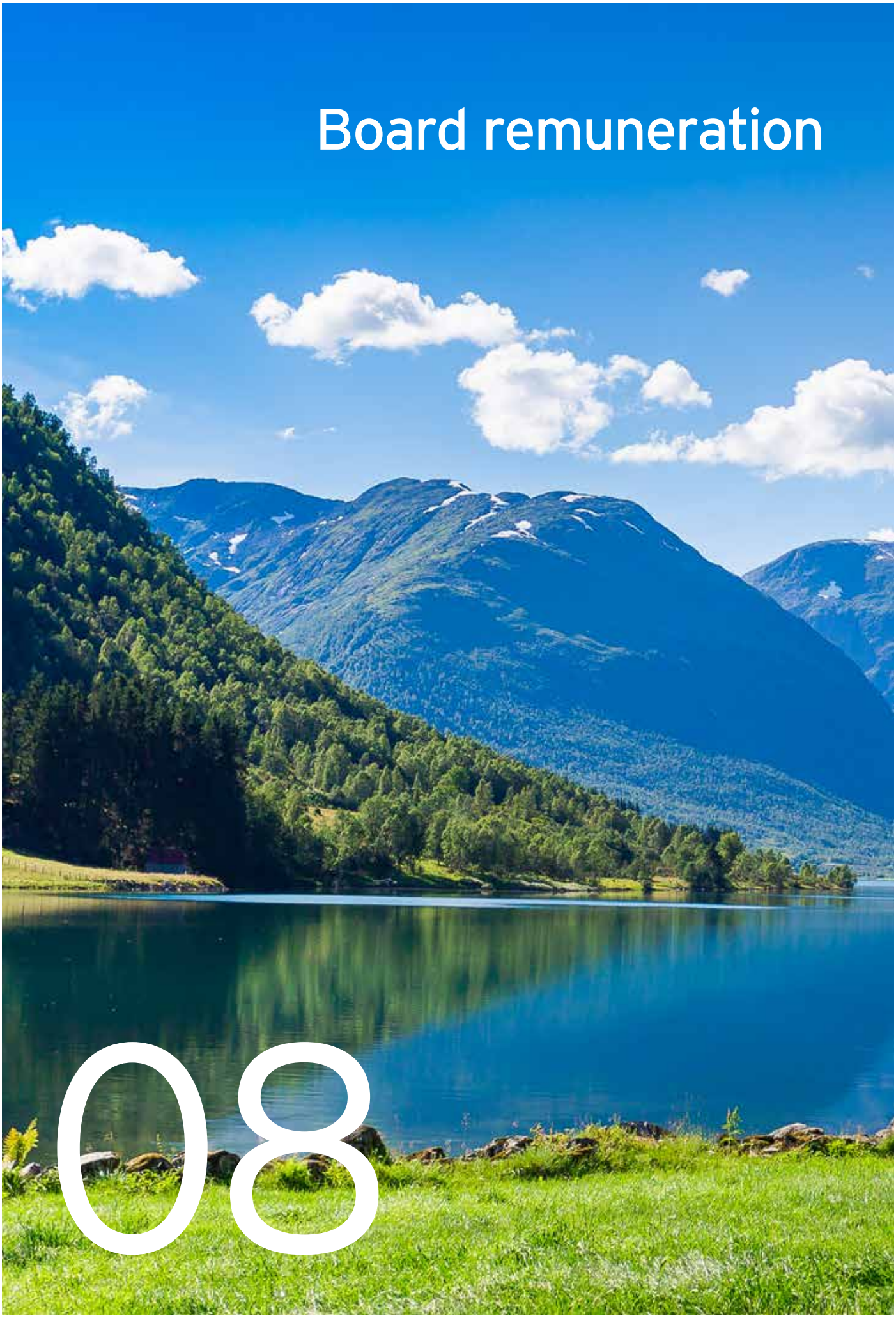
The remuneration report should include, on an individual basis, among others:

- More detailed publication regarding executive remuneration paid to identified staff, including information on the link between pay and performance
- Rationale for the variable component scheme
- Amounts of outstanding deferred remuneration, split into vested and unvested portions, the amount of deferred remuneration awarded during the financial year

For companies within the scope of CRD IV/CRR, the 2020 remuneration policy requires to comply with enhanced requirements from CRD IV. We believe that listed companies should incorporate the requirements from SRD II sooner than having to update the policy later in 2020. For both legislations, it is crucial to understand what the upcoming changes entail and the steps a company must take to ensure compliance. It may take time to perform an analysis to determine the gap between the current remuneration policy and the new requirements as well as create a new policy that includes all required information. To ensure compliance, we recommend starting preparations as soon as possible.

EY teams have extensive experience in assisting companies with remuneration policy reporting. Please contact us for a discussion on the practical consequences of the changes.

Board remuneration



08

We observe an overall decrease among fees for board chairs, deputies and members from 2018 to 2019 (figure 16). However, the decrease is explained by the fact that we, in this year's analyses, have excluded variable compensation such as meeting attendance fees, committee fees etc., that were included in previous report.

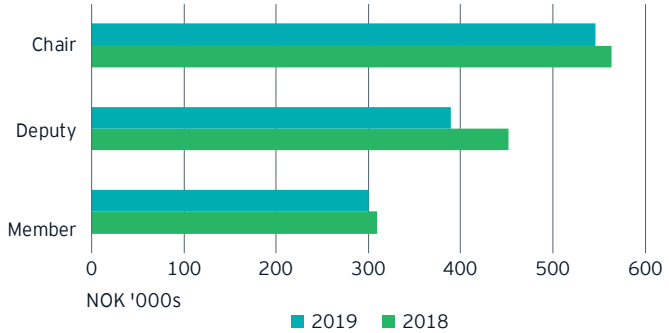
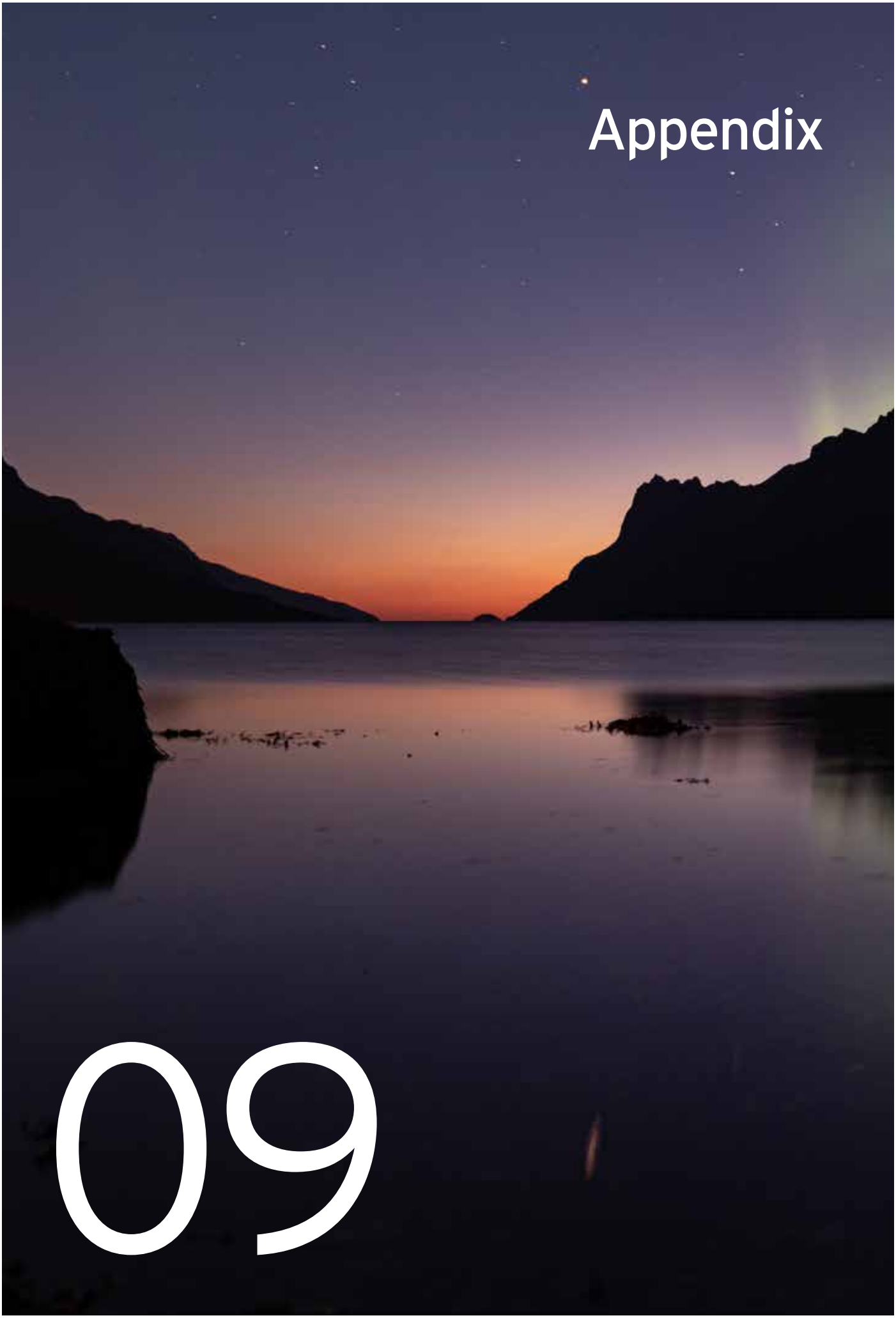


Figure 16: Board fees (2018 vs. 2019)



Appendix

09

Companies included in this year's analysis

Adevinta
Aker
Aker BP
Aker Solutions
American Shipping Company
Atea
Austevoll Seafood
Axactor
Bakkafrost
BerGenBio
Data Respons
DNB
DNO
Elkem
Entra
Equinor
Europris
Fjord1
Fjordkraft Holding
Gjensidige
Grieg Seafood
Hexagon Composites
IDEX Biometrics
Kitron
Kongsberg Automotive
Kongsberg Gruppen
Lerøy Seafood
Mowi
NEL
Nordic Semiconductor
Norsk Hydro
Norwegian Finans Holding
Olav Thon Eiendomsselskap
Orkla ASA
PCI Biotech Holding
PGS ASA
Photocure
SalMar
Scatec Solar
SCHIBSTED
SpareBank 1 SR-Bank
Storebrand
Telenor
TGS-NOPEC Geophysical Company
TietoEVRY
Tomra Systems
Veidekke
Wallenius Wilhelmsen
Wilh. Wilhelmsen Holding
XXL
Yara International

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ED None

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